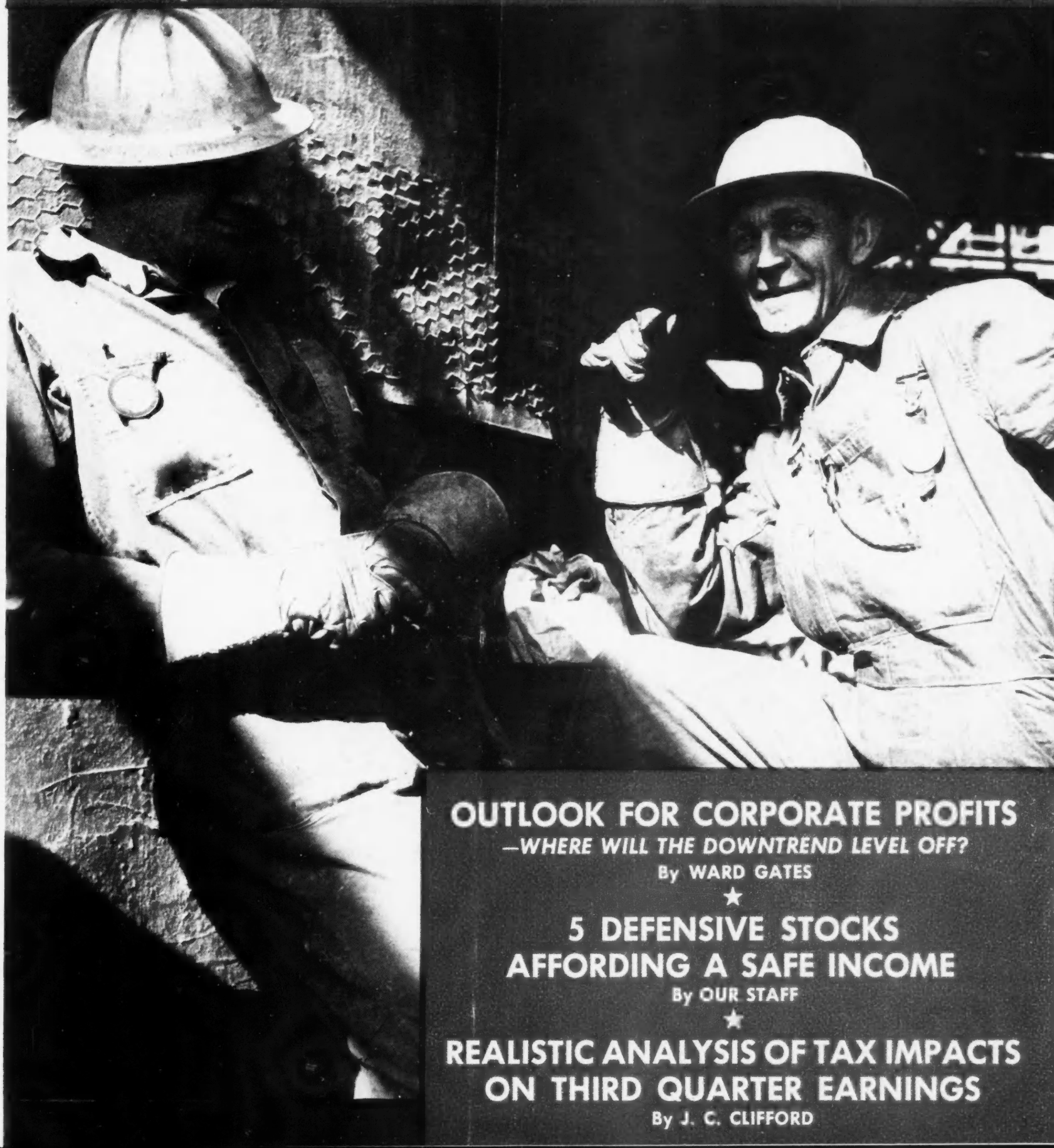
The MAGAZINE of WALL STREET

and BUSINESS ANALYST

NOVEMBER 17, 1951 75 CENTS



OUTLOOK FOR CORPORATE PROFITS
—WHERE WILL THE DOWNTREND LEVEL OFF?
By WARD GATES

★

5 DEFENSIVE STOCKS AFFORDING A SAFE INCOME
By OUR STAFF

★

REALISTIC ANALYSIS OF TAX IMPACTS ON THIRD QUARTER EARNINGS
By J. C. CLIFFORD

THE MAGAZINE OF WALL STREET

and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 89, No. 4 November 17, 1951

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes The Magazine of Wall Street and Business Analyst, issued bi-weekly, and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

CONTENTS

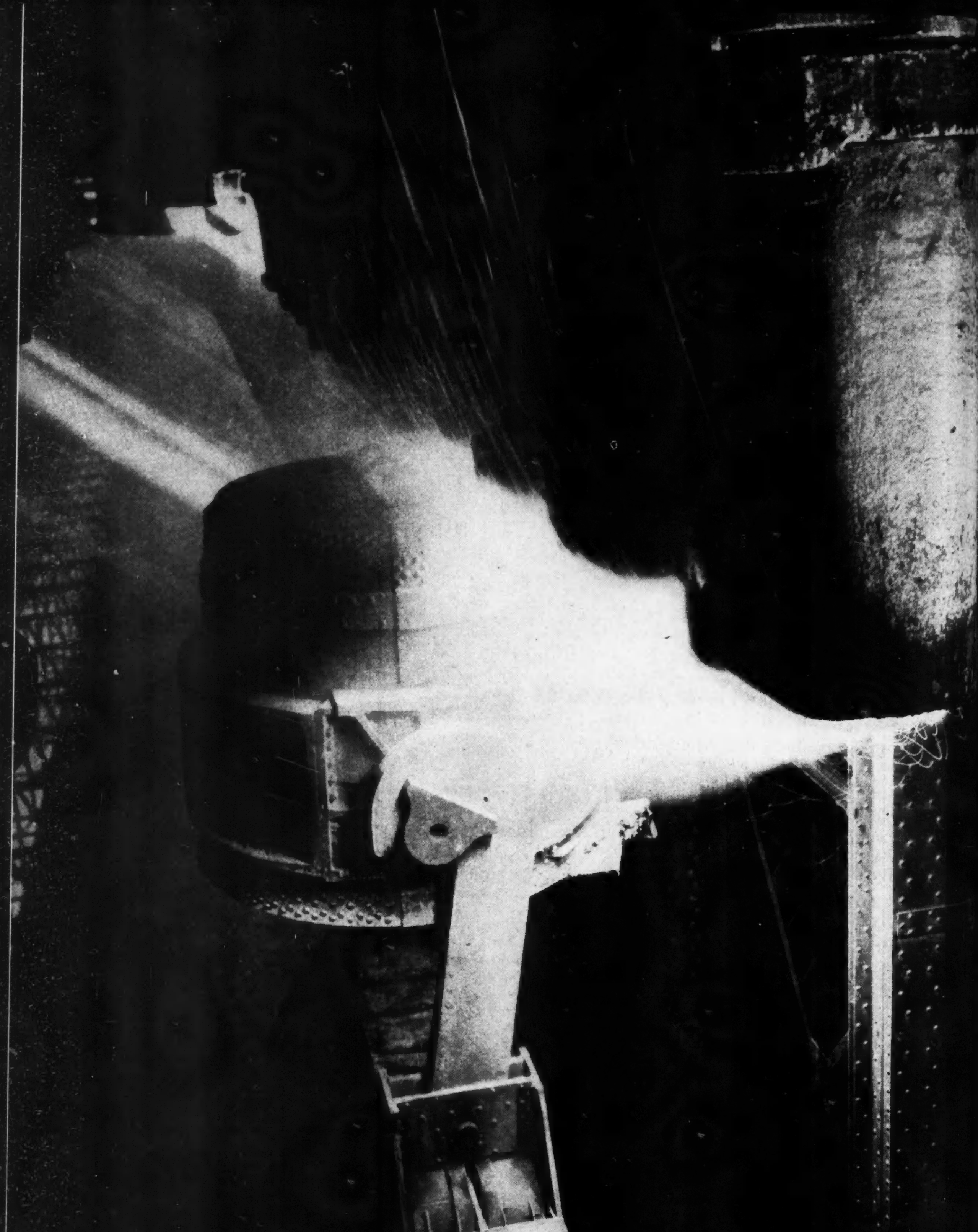
Cover Photo by Standard Oil Co. (N. J.)

SUBSCRIPTION PRICE—$15.00 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London, E. C. 4 England.

Cable Address — Tickerpub



T

C.

TH
ha
the
Ac
cei
me
ob
aff
ord
If i
sta
of
pol
aga
flat
A
up
bec
infl
Ad
sen
rat
wil
the
pre
ing
pri
as a
line
con
M
con
tha
pro
tha
tou

Bu

NO

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor*

The Trend of Events

THE CAPEHART CLAUSE . . . Price Stabilizer DiSalle has issued the first regulations putting into operation the Capehart amendment to the Defense Production Act, and predicted that they will mean higher price ceilings. He also predicted that eventually, they will mean higher prices. The distinction is of interest, for obviously he means to imply that current prices are affected by "soft" markets and the full effect of the orders would not be felt until this situation changes. If it ever does. At any rate, official recognition of this state of affairs should take the wind out of the sails of those who for various reasons—mostly selfish or political — have been bemoaning, or thundering against, the Capehart amendment as a deadly and inflationary piece of legislation.

As matters stand, one simply cannot get worked up too much about these new regulations chiefly because it is difficult to see any resumption of strong inflationary pressures in the near future, unless the Administration permits the unions to wreck any semblance of wage stabilization this winter. At any rate, the showdown—for the economy as a whole—will hardly come before late spring or summer. By then, the OPS should have worked its way out of the present tangle of interim pricing into a system of tailored price ceilings that can be used as an anti-inflationary defense line, should such a defense become necessary.

Meanwhile the OPS has come fairly close to confessing that the Capehart adjustments probably aren't much more than a somewhat annoying detour in the development of its ceiling structure, and also that price ceilings in many fields at present have little meaning. There is every indication that many companies and industries will let the new opportunity of immediate upward adjustment of their ceiling prices go unused, certainly for the time being, because their prices are below ceilings anyway and because the "tired" condition of their markets would make a price boost now an ineffective and ridiculous undertaking. Realizing that in their case a ceiling boost would be merely fictional, the OPS realistically allows such companies to initiate the Capehart adjustments any time they want.

All of which permits the conclusion that the price raising potential of the Capehart amendment will be not nearly as bad as it was made out by its opponents.

And in so far as it rectifies ceiling price inequities arising from drastic and uncompensated cost rises, it is bound to contribute to a healthier economy. Since the new regulations will permit no more than about 25% of the nation's manufacturers to refigure their price ceilings, and since in many cases resultant higher ceilings will remain purely academic for reasons stated before, they will hardly spell automatic inflation — the threat used by Capehart opponents to get Congress to kill the amendment.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

THE FRUITS OF PRODUCTIVITY . . . As discussed elsewhere in this issue, the new round of wage demands slated for the coming months is in large part based on labor's claim of increased productivity. This af-

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS : : 1907—*"Over Forty-three Years of Service"*—1951

fords an occasion to probe into the question what labor's share of the benefits of technological improvement really should be. While labor as well as management are intimately acquainted with the practical problems posed by that question, there is apparently no general agreement as to their solution. But the fact remains that whenever productivity rises, it is made possible by the contribution of all partners in American business: by the stockholders who supply the capital; by management which supplies the planning, methods and tools; and by labor which provides increased skill and effort. Each partner is taking some risk and each gains from new technological developments. Each partner, therefore, has a right to benefit from the fruits of greater productivity.

Labor's share already has been considerable, and doubtless a proper share must be provided in the future. Certainly if the increase in labor's real wages is substantially less than the productivity growth rate, the purchasing power of labor will not be as high as it should be—which is bad for business as well as labor. However, if that share is substantially more, if it is excessive in relation to that of the other partners in business, the result can only be retardation of our progress as an industrial nation. In that event, too, labor would suffer.

A realistic and common-sense approach is therefore required. Labor alone can do relatively little to boost productivity since there is a limit to human effort. There can be no substantial productivity increases without the introduction and improvement of machines, without the means to buy better equipment, without expert planning to achieve simplification of manual methods, without efficient management and know-how. In other words, the contribution of management and capital is certainly on a par with that of labor. This being so, they should not be denied their proper share of the benefits arising therefrom.

This means that there should be no such a thing as using technological improvements to dictate wage rates on a selfish and unilateral basis. It must be recognized that we cannot get more out of the economy than we put in, and that collective bargaining in good faith and on solid facts is the only road to a workable distribution of the total product. It is a problem that presents a challenge and an opportunity for labor, management and the owners of American business.

BRITAIN'S NEW DILEMMA . . . Chancellor of the Exchequer's statement that the bank rate would be raised from 2% to 2½% is one of the first moves of the new British government to halt inflation. This traditional move in orthodox Treasury control will have the immediate result of cutting down the volume of new loans to business and has for its purpose the lowering of national demand for goods and the consequent halting of the downward trend in sterling.

Moves of this type are bound to have an effect on the already austere daily life of Britain, especially when combined with the decision to cut imports by approximately $1 billion a year. Such cuts in imports will principally affect foodstuffs and strategic materials and this is likely to have a double-edged result: first, it will increase dissatisfaction among the long-suffering public, and second, it will complicate General Eisenhower's task of rebuilding the defenses of Europe, since a reduction in Britain's imports of raw materials needed for military production will automatically limit the country's ability to produce weapons.

The move is no doubt dictated by sheer economic necessity. However, the speed with which it was taken leads to the surmise that the Churchill government is not unmindful that Congress will reconvene in January, and that it must move fast if it is to have any chance of convincing our lawmaking body that it should reverse its relative negative position of extending further foreign aid. There can be no doubt that Churchill will make it clear that Britain needs financial assistance on a generous scale and probably for an extended period, if it is to go ahead with the required re-armament. Therefore, the new harsh measures of the British government may be taken not only as a frank admission of trouble to the British public, but as a not too delicate hint to the American Congress that it had better hurry if it expects Britain to do its full share in the mutual defense effort.

It is said that not less than a loan of $1 billion a year for at least five years will be required to keep Britain's head above water. How this will sit with a Congress that must run for re-election is problematical.

OUR FOREIGN INVESTMENTS . . . American investments abroad may be modest in relation to the nation's huge domestic capital investment, but they are growing. And what's more, profits realized therefrom are growing too, as attested by the fact that Americans last year earned more from their foreign investments than in any preceding year in history. According to the Department of Commerce, such earnings in 1950 totalled $2.2 billion which compares with $1.8 billion in 1949 and $1.9 billion in 1948.

The rise of earnings is due to both the very substantial postwar additions to American foreign investments and to a significant increase in the rate of return. The latter in 1950 was placed at about 15% on invested capital, more than double the rate realized during the 1920s. Of the $2.2 billion earned, a record $1.7 billion was transmitted home to this country. The balance—some $443 million—remained abroad as undistributed profits of U. S.-controlled foreign companies.

Just about 85% of the 1950 receipts came from direct investments, usually branch plants of foreign companies in which American concerns own 25% or more of the voting stock. Only 10% came from private portfolio investments, in marked contrast with a 50% ratio prevailing back in 1929 when Americans held huge amounts of foreign securities.

Portfolio investments have since become unpopular for good reason; there have been too many defaults and the risk is out of proportion even with liberal return, and good return on securities can be had right here at home. But direct investments have been growing rapidly, particularly those of the oil industry which accounted for a large part of the rise. Oil companies transmitted to this country some $700 million of their (*Please turn to page* 206)

As I See It!

By ROBERT GUISE

THE BATTLE FOR PEACE

For months, Russia has been making propaganda hay with her various "peace" proposals, virtually holding what seemed to be a monopoly on peace talks, no matter how spurious. Little wonder, then, that the West finally decided that the Kremlin should no longer be allowed to hold the initiative in this propaganda battle. Thus the United States presented an arms census plan. French President Auriol's call for a "Big Four" meeting was also part of the western peace offensive as were Winston Churchill's various statements on his intention to try negotiation of the East-West difficulties. The program was carefully prepared and carefully timed but it was also realized that the chances of Soviet acceptance were faint indeed. It would have been naive, in fact, to have hoped for success in the light of past experience with the Soviets.

It must have been obvious from the beginning that Stalin would hardly accept the U. N. disarmament plan, that he couldn't even if he wanted to, for the nature of communist dictatorship prevents genuine cooperation within the framework of such a plan. Secrecy is essential to survival of dictatorship, hence the Iron Curtain. U. N. inspection would not only destroy the curtain but rob the communist police state of its absolute powers. To accept might well mean suicide for Stalin who by his actions has made it amply clear that he wants to maintain his military superiority over the West as long as he can.

Now that both sides have submitted their plans for disarmament and peace, neither acceptable to the other, another severe test looms ahead. While the U. N. at the Paris meeting may try once more to resolve the political conflicts that divide East and West, it looks more like a hopeless task. The way to start getting somewhere in any effort to remove the basic cause for the arms race is of course not disarmament, not even by easy stages, but a settlement of the political conflicts back of the cold war. After all, the causes for arming are the tensions that rise from unresolved issues. As long as they continue, it will be necessary to protect ourselves. To attempt a settlement by first disarming would be confusing cause and effect. As long as international communism continues on its chosen course, we have no choice but to meet it.

"PASSING THE SOUND TRUCK"

Dawling in The N. Y. Herald Tribune

Still it was a good idea for the West to bring forward a peace plan of its own, if only to ease tensions domestically and among our allies who have been growing restive under the big arms program. It was wise to demonstrate our willingness to talk things over; it would have been extremely unwise to refuse a chance to grasp the peace initiative. Having done so, we have put the Russians on the spot: Either they will have to reveal how hollow Russian peace talk is, or else they will have to agree to real concessions. Failing in the latter respect, they certainly are apt to persuade our allies that no other course than preparedness is open to them.

Mr. Vishinsky's reaction has shown us where we stand, namely that we are still facing an implacable foe. The idea that he would show real interest in peace has been laid low. He has no intention to negotiate except on the Kremlin's terms. Moscow may well agree to some talks, for the record, but will use them for tactical and propaganda purposes while strengthening its position and preparing for new ventures, and certainly will make a determined effort to divide the West and undermine its rearmament program. Actually the U. N., looking for some signs of possible (*Please turn to page* 207)

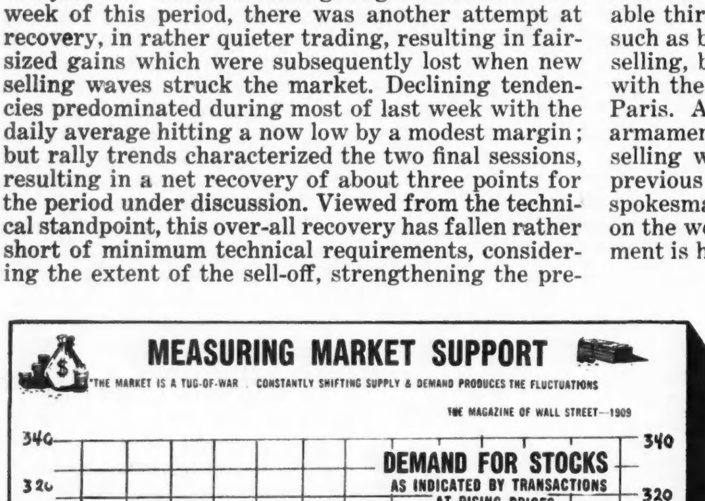
Earnings Decline Not Fully Discounted

The stock market to-date has had no more than relatively minor recoveries, affording no reliable clue to the future trend. Uncertainty remains pronounced, leaving stocks vulnerable to further reaction prior to development of a support base which may take some time. We advise deferment of a buying policy and continued maintenance of ample cash reserves for future buying opportunities.

By A. T. MILLER

There has been no striking change in the general position of the stock market since our previous analysis was written a fortnight ago. Within the first week of this period, there was another attempt at recovery, in rather quieter trading, resulting in fair-sized gains which were subsequently lost when new selling waves struck the market. Declining tendencies predominated during most of last week with the daily average hitting a now low by a modest margin; but rally trends characterized the two final sessions, resulting in a net recovery of about three points for the period under discussion. Viewed from the technical standpoint, this over-all recovery has fallen rather short of minimum technical requirements, considering the extent of the sell-off, strengthening the premise that the market has yet to make a base.

What has made prices vulnerable to further reaction was not only the continued stream of unfavorable third quarter earnings, and some dividend cuts such as by Chrysler which in itself promoted further selling, but development of a peace scare coincident with the opening of the U. N. Assembly meeting at Paris. Announcement of President Truman's disarmament proposal was the occasion for fairly brisk selling which pushed the daily average through its previous low. Its outright rejection by the Kremlin's spokesman brought a rally of almost equal dimensions on the well-founded belief that "peace" and disarmament is hardly around the corner.



Peace Scare a Tenuous Factor

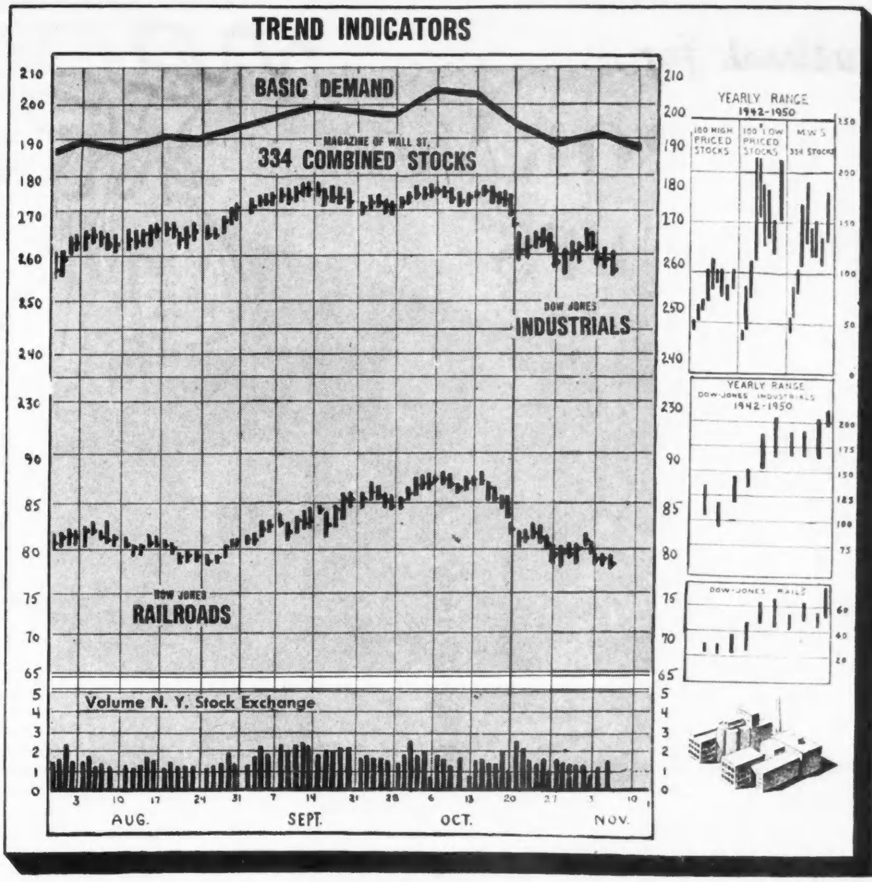
Nevertheless, the diplomatic maneuvers now going on at Paris—however unpromising they may appear—are likely to keep the market off balance for some time or at least to maintain a state of caution and uncertainty that is bound to limit recovery trends in the more immediate future. Both from a technical and news standpoint, new tests are likely ahead. At least, and until the outlook is clarified, we would not expect any future rallies to carry too far.

We believe so for two reasons: (1) The full story of tax inroads into corporate earnings has not yet been told, particularly not from the standpoint of impacts on dividends. Though no large cut in aggregate dividend payments is indicated, some of the more conservative directorates will be cautious in the matter of year-end payments. (2) Business continues quite spotty and where this is so, no expectation of an early change seems justified. (3) Seventh round wage demands are coming up, pointing to a possible further squeeze on profit margins and earnings. Moreover, "wildcat" strikes are again impeding the defense effort, threatening new bottlenecks and slower than expected progress. With taxes cutting deeper, and wages and other costs being pushed higher with Government support, it may take a rather small percentage decline in business to put some companies in the red

next year, and force dividend reductions by others.

Currently, the stronger factor in the market is uncertainty rather than pessimism. Realistically viewed, a genuine peace scare which could push stock prices sharply lower is hardly in the cards, considering the Russian attitude towards the West's proposals. There is no reason to anticipate anything like a drastic cut in the defense program. More arms rather than less are now being considered, portending a stretch-out for controls and a worsening of the supply pinch in vital materials and skilled workers, and possibly expanded deficit financing.

Uncertainty thus prevails regarding the tempo and impact of the defense program rather than its continuation which is not questioned. Uncertainty also prevails regarding the significance of the latest market break, and what has been going on since—whether it signifies merely a sharp but temporary reation; whether it points to a full-fledged correction that may take the daily industrial average down to 240 or even lower over the next few months; or whether it marks a major turning point with prices under pressure for an indefinite period.



On basis of existing realities, there is little if any support for the bear market argument. Fundamentally arguing against it is the sustaining force of the defense program and the fact that the Administration, facing an election year, will work for maintenance of high level activity, full employment, and high consumer incomes. Arguing against it is also the prospect of satisfactory, though somewhat lower aggregate corporate profits and dividends. Finally there is the absence of speculative excesses, the fact that stocks are more strongly held by income-conscious institutional and individual investors than ever before.

On the other hand, reasons for a further extension of the correction are more convincing. One of them is purely psychological, the very expectation of further reaction which is resulting in a considerable lessening of short term trading and an inclination to leave cash reserves—at present quite substantial—uninvested for the time being. Another is the impact on earnings of taxes, mounting operating costs, the shift from high-profit civilian goods production to less profitable defense business, and the spotty situation in consumer goods industries generally.

Moreover, there is the further simple reason that a large and long advance has put better grade stocks up to levels where they are rather less attractive than before, and where the thought of protecting profits is becoming more widespread. At this juncture, there is less buying urge and a greater desire to clinch profits. Due to quirks in the new tax law, year-end tax selling may rise above normal levels, adding to market pressure. And there is always the possibility of upsetting developments in the international field.

Further Correction Limited?

If further reaction is possible, if not probable, there are also factors that should tend to limit any future decline. Basic of course is the existence of the defense program, current backbone of business strength, which is not likely to be weakened appreciably under any conditions. Fourth quarter corporate earnings, not burdened by extraordinary tax write-offs, should make better reading than the third quarter showing, at least in many cases. Dividend coverage generally remains ample and militates against substantial cuts. And as a result of correction to-date, the market is closer to a base that is likely to attract firmer support, though on a highly selective basis as the market continues to assess tax inroads upon various stock groups and individual issues. It is the latter element, mainly, which in recent weak markets has made for above-average resistance by such groups as oils, utilities and non-ferrous metals, with more vulnerable groups bearing the brunt of the selling.

As previously opined, trading rallies are about the best that can be reasonably expected in the near future, since despite the *(Please turn to page 207)*

Outlook for . . . .

CORPORATE PROFITS

—WHERE WILL THE DOWN-TREND LEVEL OFF?

By WARD GATES

The drop in corporate profits that has been in evidence in the second and, particularly, the third quarter of this year reveals the underlying fact that American corporations are now subject to powerful forces which may have a cumulative effect in coming months. Actually, the peak of corporation profits was reached in the final quarter of last year. The erosion set in immediately after, but did not become generally apparent until recently although close students of the situation had been aware ever since the first quarter that the pattern of profits had changed.

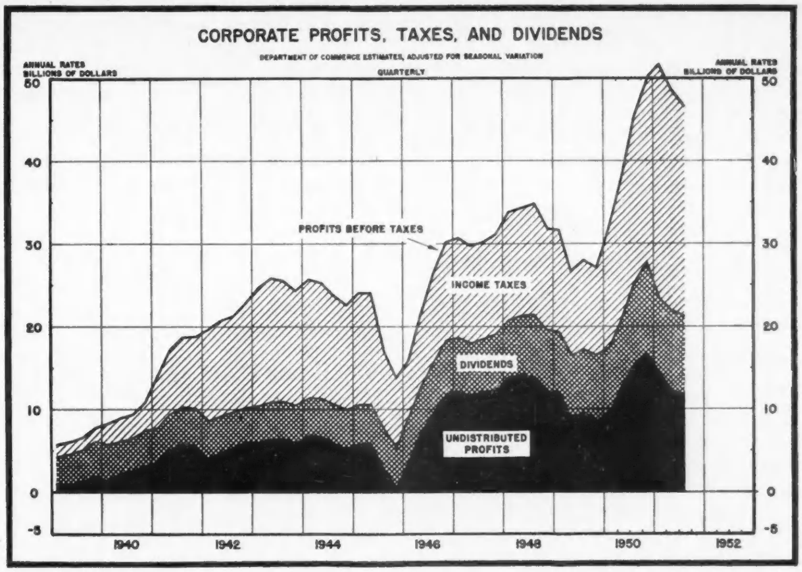
The change in conditions is best illustrated by a comparison of post-tax corporate earnings in the final quarter of 1950 and those of the third quarter of 1951. In the former period, they were at an annual rate of $27.8 billion, and in the latter at a rate of $21.3 billion, a very sizeable drop. The figure of $27.8 billion has never before been reached in the history of American business and, in fact, was almost three times as much as the annual profits during World War II. There is every reason to believe that this enormously inflated rate of profits, which had its origin in the terrific impact of the Korean War and the national defense program which followed, may not be seen again for a very long time to come, except under conditions of outright inflation.

What has happened since the end of last year has been the subsiding of the violent wave of buying which forced prices up all over the world. This was followed by a sharp drop, with the present price structure presenting a picture of relative stability at a level considerably below that prevailing at the end of 1950. If we consider that the inflated prices of the latter part of 1950 were one of the chief factors in the immense increase of profits at that time, it is not difficult to see that the ending of the price boom in the intervening period has removed this element from the profits situation. Inventory gains, therefore, can be ruled out as a prime source of future profits. In fact, there is reason to believe that the present high inventories in the hands of manufacturers, wholesalers and retailers contain within themselves the seeds of possible future price softness.

Manufacturers, affected by actual or potential lag in some of their lines, are facing the dilemma of reducing prices or curtailing production, or both. The recent decision of the American Viscose Corp., the largest producer of cellulose viscose yarns, to cut production a second time, illustrates the manner in which heavy inventories are commencing to have effect. Such conditions, however, are more applicable to soft goods' lines than to durable goods at the present time since price conditions in the basic industries linked directly with the defense effort are still firm.

High Inventories a Problem

The over-all inventory situation is clouded with uncertainty. Total business stocks at the end of August amounted to $69.9 billions, only a fraction under the all time peak of $70.2 at the end of July. A year ago, they were $57 billion. The rise of $12 billion in inventories, most of which has taken place since the beginning of the year, is not so much a reflection of higher prices, since prices have been easing for some time, but rather the failure to move these goods out of manufacturers' and wholesalers'



hands in sufficiently large quantity to ease the situation.

Of total business inventories, about $40.5 billion as of September were at manufacturers' levels; of the balance, slightly less than $10 billion were held by wholesalers and $19.4 billion by retailers. With defense production now running at about $3 billion monthly, to be stepped up to $4 billion by next summer, manufacturers' stocks will be in better balance with demand. However, practically no progress is visible in this respect with regard to the wholesale and retail divisions. This means accentuated problems for some time to come, especially in the retail business, with a direct effect on profits now clearly visible in recent earnings reports of companies in this field.

Manufacturers beset by unsatisfactory conditions in consumers' goods lines, both durable and non-durable, are now looking eagerly to the possibility of securing Government contracts, even though these offer the small percentage of profit typical of all defense business. In fact, in some areas the situation is potentially unsatisfactory enough to warrant the opinion that hardship can be avoided only if defense contracts are spread out on a wider basis than at present, and speeded up.

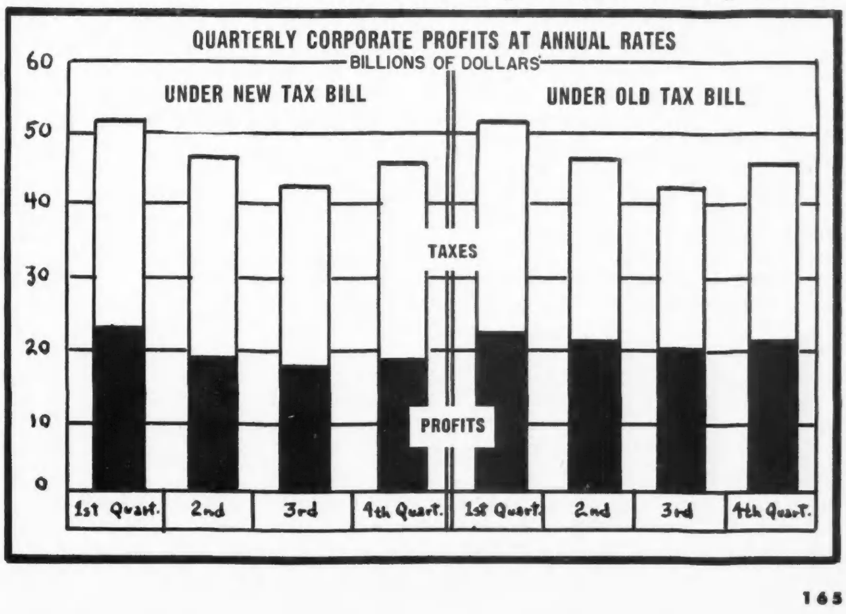
Impact of Defense Business

The situation is somewhat anomalous since some manufacturers are complaining that the larger their defense production, the smaller the rate of profit, whereas others need more defense business to keep their plants going profitably, or even, to avoid loss. On the other hand industries which are in the front line of defense activities, such as steel, electrical equipment, aircraft, chemicals and the like, as defense output increases, are gradually compelled to shift over from profitable civilian outlets to the far less profitable defense production.

An important factor in determining corporate profits, probably for the next year at least, is the rate of production allocated to defense, and the rate permissible for civilian use. With military expenditures over the $40 billion annual rate and soon to be close to $50 billion, it is clear that such a large percentage of production for defense at low profit margins, will have a cumulative effect in reducing the over-all rate of earnings. A contributory factor is the problem created by the system of material allocations which in themselves affect many industries forced to find substitutes for scarce materials, thus raising the cost of production.

Of particular weight is the factor of higher costs of materials and labor. Though prices, for the most part are no longer rising, they are considerably above last year and have been so imbedded in the general cost of operations, that most manufacturers and distributors are resigned to this difficulty without being able to do much to lessen the impact. Furthermore, indications of an early demand by the unions for higher wages are bound to complicate affairs. The steel unions, for example, are shortly to demand a considerably higher wage than permissible under Government regulations, and steel company officials have already stated that they would ask for higher prices if the new wage demands have to be met. Needless to say, any wage increase in this industry and others that may also be affected, if not compensated for by higher prices will put a further squeeze on profits, especially since the Government is ostensibly committed to an anti-inflation program.

With post-tax profits for industry showing the third successive quarterly decline since the end of 1950, figures for the third quarter, and presumably those of the current quarter, are showing and will



continue to show the impact of the higher tax rates. Pre-tax corporate profits for 1951 are estimated at about $45 billion, of which approximately $25 billion will have to be deducted for taxes. In other words, corporations under present conditions, on the average, can only retain about 44% of profits for all corporate purposes, including dividends. There is no chance of this situation changing in the next year. Indeed, if the President had his way, another tax increase would be in prospect early next year, though in an election year this is not likely.

Operating Costs Higher

The increase in operating costs from the second quarter of last year to the present has been very steep, total costs for manufacturing concerns having risen from an annual figure of $38.4 billion to $46.7 billion. While sales have increased proportionately, the tax bite has been so severe as to affect radically the post-tax margin of profit. In order to give a more detailed picture of what is occurring, we are citing some figures relative to the leading industries.

Of thirteen industries, food, tobacco, textile, apparel, lumber, paper, chemicals, fuel (petroleum and coal), non-ferrous metals, steel, machinery, electrical equipment and motors and parts, all but food showed an increase in pre-tax margin of profit from the second quarter of 1950 until mid-year 1951. After taxes were paid, however, the picture was very different, with eight showing declines—food, tobacco, apparel, lumber, chemicals, steel, electrical equipment and motors. Only paper and petroleum showed increases, and the rest were unchanged. It is obvious, then, that despite higher sales in most of these industries, the effect of higher costs and taxes, is combining to bring about a shrinking rate of profit. For example, in a compilation of earnings results of 55 industrial companies, it is noted that whereas sales for the second quarter of 1951 increased about 15% above the same period last year, net income declined over 23%. In view of the sharp drop shown by many companies in the third quarter, it is certain that by now net income has declined further as compared with last year.

Large vs. Small Companies

An interesting feature is that the decline in net income is much greater in the large companies, especially the very large ones, as compared with companies of medium-size. This is accounted for by the fact that the small units are especially sensitive to important changes in the general business. Receiving what may be termed the over-flow of business, as during the current armament build-up, they can show increases in profits, or at the worst comparatively small declines in their profits, despite taxes and higher costs, whereas the big companies accustomed to operate on a more even low-cost basis are squeezed, especially when an increasing bulk of their activities is devoted to comparatively unprofitable defense operations. Since the larger companies are receiving by far the largest percentage of government contracts and since profit margins are lower on this type of business than regular commercial business, it follows that the big companies are not as well off, comparatively speaking, as some of the smaller ones, especially when their huge tax bills are considered.

With defense production now approaching 20% of the national output, it is evident that industry has reached a point where the tempo and duration of the arms program is a factor of major economic importance. Practically all business men are haunted by the fear that any important change in the Government's spending policies that might be caused by a shift in the international political situation, would result in a large contraction in plant activity, employment and general demand. So far, there is no evidence that such a development is in sight and therefore this is not a practical consideration at the present time.

After adding up all the adverse influences on profits so far discussed, it must also be recognized that the over-all profit situation is still quite satisfactory. Even after successive quarterly declines in post-tax profits, they are still running at a rate of $20 billion annually. This compares with the following (in billions): $18.5 in 1947, $20.7 in 1948, $17.3 in 1949 and $22.7 in 1950. All these figures are far above those of the war and early postwar years so that an undue sense of pessimism is not warranted by the actual situation. However, the cumulative effect of higher costs and taxes, which has already brought net income down by over $2 billion since 1950 is likely to continue in 1952.

Outlook for Profits in 1952

With the cost of living now at the highest figure on record, union contracts based on the cost-of-living index are gradually being adjusted upwards. This is without consideration of possible wage hikes that may be put into effect next year. To this must be added the higher corporate taxes, the latest increase amounting to above $2.0 billion above taxes already in effect. If we consider that this combination of factors affecting corporate profits will be continued over from the last half of the year into next year, it seems reasonable to forecast that post-tax corporate profits for 1952 may fall below the estimated $20 billion rate of 1951.

We have seen that the post-tax profit ratios of the major industrial groups have declined since the end of last year, with the exception of petroleum and paper. Despite the increase in sales, profits per dollar of sales declined. Of the relatively smaller companies, those with annual sales of $5 to less than $100 million, post-tax profits dropped from 7 cents per dollar of sales in the second quarter of 1950 to 5.6 cents in the second quarter of 1951. Based on the rate of successive quarterly declines in 1951, it is probable that the third quarter and the fourth will bring the rate of profit down to close to 5 cents per dollar. Of the larger companies, those with annual sales in excess of $100 million, post-tax profits dropped from 9.2 cents per dollar of sales in the second quarter of 1950 to 6.9 cents per dollar in the second quarter of 1951, with the probability that the rate will decline to close to 6 cents per dollar in the third and fourth quarters. For all manufacturing industries, the rate of profit dropped from 7.4 cents per dollar of sales to 5.8 cents, with the outlook for the last quarters of the year pointing to slightly above 5 cents per dollar.

These figures are important because they tend to show the dragging influence of higher costs and taxes on net profits derived from sales. If expanding sales were not able to offset these factors, the question would arise what would happen if sales could no longer increase while costs and taxes remained at high levels. This question (*Please turn to page* 203)

Realistic Analysis of Tax Impacts ON Third Quarter Earnings

By J. C. CLIFFORD

Third quarter earnings have made unpleasant reading for most stockholders, about three out of every four companies reporting reduced profits. Lower earnings have been blamed, for the most part, on higher taxes. While this is substantially true, other factors such as lower sales, higher operating costs and piled-up inventories have also played an important role.

Whether due to taxes, higher costs or lower sales, or a combination of these causes, there is no doubt that the impact on third quarter earnings has been marked. On an over-all basis, net income declined about 20% from the second quarter, 25% from the last quarter of 1950, and 28% from the third quarter of that year. It is now clear that industry faces quite a different profit situation than in 1950 when the earnings trend was sharply upwards.

A contributing factor has been the charge-off by many corporations of the entire retroactive tax due in the second quarter against third quarter earnings. The result has been to over-state the situation in such cases, so that the decline in profits looks more severe than would have been the case had this charge not been included. Relieved of this burden in the fourth quarter, companies which have already made allowance for the retroactive tax, should do somewhat better. On the other hand, companies which have failed to make the necessary adjustments will be compelled to fall into line in the fourth quarter. Investors in such companies should be prepared for poor earnings statements at that time.

A handful of companies were able to make better showings in the third quarter because they had already prepared for the coming higher taxes and adjusted their accounts in the first and second quarters. With tax charges at a relatively even rate during the successive quarters, violent dips in earnings during the third quarter did not materialize among this group.

Investors who have resigned themselves to the prospect of continued high corporate taxes can reconcile themselves to this situation, no matter how unwillingly, provided there is assurance that otherwise conditions affecting their companies will remain favorable. In such cases, companies can continue to earn substantial profits, though below recent peaks. If, however, trends are being reversed, the story would be quite different and stockholders then would have cause for concern. For that reason, it is especially important, at this time, for investors to study their companies' reports carefully as this will enable them to arrive at a better understanding of the prospects ahead.

Variations in Company Reports

This study is limited to an analysis of individual company earnings, but for those interested in the broader aspects of the corporate earnings picture, we call attention to the lead article in this issue entitled "The Outlook for Corporate Profits." While third quarter reports show a fairly general decline, variations among individual companies are quite pronounced. Some show a drop of as much as 60%-70%, with the average about 20%. A comparatively small number showed gains, which was especially true of the petroleum group.

The accompanying table of over thirty companies, representing a wide range of industries, gives a fairly comprehensive cross-section of the earnings situation for the third quarter, and is particularly useful since it gives the reader an opportunity to compare these results with those of the preceding four quarters. We analyze in the following a number of specific situations, to give a more adequate picture, especially from the tax angle. Most of these

companies are leaders in their fields, and their performance under current conditions should be of interest.

Effect of Accrued Taxes on "Steel"

Third quarter earnings for the *United States Steel Corporation* were 83 cents a share, compared with $1.99 in the second quarter. For the full nine months, earnings were $4.44 a share compared with $6.12 the same period last year. The third quarter decline was due to the $17.5 million charge-off for retroactive taxes, an amount equivalent to about 67 cents a share on the common stock. How much of the extra tax liability was applied to the second quarter, and how much to the third was not precisely stated by the company. However, it seems conclusive that the entire amount of $17.5 million was actually charged against the third quarter. Otherwise, the jump in taxes from $99.5 million in the second quarter to $115 million the third would be hard to explain since the decline in sales and production during this period would have actually brought about a cut in taxes, were not the accrued taxes for the second quarter included.

On this basis, it would seem that the fourth quarter statement will remove the distortion seen in the third quarter report. Production is now swinging back to the record high levels of earlier this year, the seasonal dip of the third quarter being ended. With production at a record high for this period, fourth quarter earnings should show an improvement over those of the third, though they will be far from duplicating the very large earnings of $2.04 a share in the third quarter of 1950.

Bethlehem Steel's 1951 Earnings

The decline in *Bethlehem Steel Corporation's* earnings from $2.30 a share in the second quarter to $1.76 in the third, while not so sharp proportionately as in the case of U. S. Steel, nevertheless reflects the conditions under which all large steel companies have operated. During the first nine months of the year, Bethlehem's sales increased 28% but this did not prevent a decline in earnings of 28%. This was caused entirely by the difference in taxes which were $135 million for the period in 1951 compared with $75.8 million in 1950, and equivalent to over $6 a share on the common. Taxes increased from $41.9 million in the second quarter to $47.9 million in the third, or a difference of 63 cents a share. In other words, without the charge for retroactive taxes, the company's profit in the third quarter would have been $2.39 a share, roughly equivalent to the second quarter's earnings.

Sales remained practically constant in the second and third quarters, and there were no important changes in operating conditions, production having been at a steady pace of around 100.4% of capacity. Production is currently running at 105% of capacity so that fourth quarter earnings would show an improvement, especially with retroactive taxes out of the way.

Nine months' earnings for 1951 amounted to $6.50 a share against $8.96 in 1950. Third quarter earnings in 1950 were $3.33 a share but such exceptional earnings are not likely to be duplicated. Based on its earnings thus far this year, giving full weight to the higher taxes now in effect, it is estimated that the full year 1951 will produce earnings of about $8.75 a share against $12.15 a share in 1950.

The drop in the third quarter earnings of *General Electric Company* was particularly disappointing and a shock to investors. In fact, publication of this poor earnings statement set off the slump in the stock market and pointedly called attention to the decline in profits that had occurred generally throughout industry in the third quarter of the year. General Electric showed 54 cents a share compared with $1.22 a share in the second quarter and with $1.23 a share in the third quarter of 1950. In the first nine months of the year, net earnings were $2.98 a share against $3.91 in 1950.

The heavy taxes were particularly burdensome, though the actual amount of taxes were lower in the third quarter than the second, the figures being $59 million and $70 million respectively. This was due to the drop in pre-tax earnings of from $105.3 to $70.6 million. This decline of almost $30 million in operating revenue was due mainly to the drop in sales which took place in this period, with sales of $509.3 million against $615 million in the second quarter. The reason for the decline in General Electric earnings, therefore, may be found mainly in the reversal in sales and operating conditions rather than in taxes, though these also took their toll.

General Electric's Profit Ratio Down

Conditions in the electrical manufacturing industry have not been as satisfactory recently as in the earlier part of the year, due to the slowing down of consumer buying. This has affected the rate of profit, despite continued high production for defense needs. The latter, however, occupying an increasingly important position in the company's production schedules, is accomplished on a small rate of profit, as is true of defense contracts generally, with the result that the company's margin of profit has been affected. This is indicated by the fact that the company's ratio of net earnings to sales was only 3% in the third quarter, whereas it was 6.5% in the second quarter and 7% in the third quarter of 1950. Such a low rate of profit would indicate the cumulative influence of higher taxes, lower sales and lower production.

Allowance must be made for the wage increases brought into effect early in October which provides for a 2½% boost based on the escalator clause of GE's contract. The company has been delayed in securing price relief under the Capehart amendment of the Defense Production Act, so that the current increase in wages will, in effect, be a charge against profits. The new OPS decision, however, will help somewhat.

For the full year 1950, the company earned $6.01 a share. Based on earnings of $2.98 a share for the first nine months of this year and in consideration of the factors mentioned above, it is likely that General Electric will earn somewhat less than $4 a share for the current year.

General Motors Corporation earned $1.01 a share for the three months ended September 30, compared with $1.55 a share in the second quarter and $2.44 a share in the third quarter last year. About 33 cents of the decline in earnings was accounted for by the company's charging off its retroactive tax to the third quarter.

Net income decreased from $139 million in the second quarter to $93 million in the third, at the same time that taxes were off from $245 million to $231 million. The decline in taxes is due to the poorer operating conditions during the third quarter, which

is better indicated in the drop in sales from $1921 million in the second quarter to $1722 million in the third quarter. While defense production increased, the decline in automotive and other non-defense output had the effect of reducing sales by about 10%. This was particularly expensive for the company as the drop in the more profitable lines could not be compensated for by the increase in defense production. Furthermore, only part of the increased expenses, incurred by higher wages and materials cost, could be recovered on account of price controls thus bearing down on the margin of profit. The ratio of profit to sales in the third quarter was 5.4% against 7.2% in the second quarter and 10.8% in the third quarter of 1950.

Writing off the retroactive tax in the September quarter frees the company from the obligation of charging therefor in the final quarter, so that the earnings for the latter period will be benefited to that extent. However, further cut-backs in automobile production, in addition to limitation of demand and output for other regular commercial lines, will probably help to hold down earnings for this period close to those of the third quarter. For the first nine months, earnings were $4.14 a share compared with $7.89 a share in the corresponding period of 1950. Based on results thus far this year, and the rather clearly outlined outlook for the balance of the year, it would seem that General Motors will earn somewhat over $5 a share for the current year.

The September quarterly earnings statement of *E.I. du Pont de Nemours & Company* showed net profits of 85 cents on the common stock, against $1.24 in the second quarter and $2.08 a share in the third quarter of last year. The sharply reduced profits were due principally to three causes: 1) the reduction in General Motors dividends which amounted to $20 million on the 20 million shares of stock held in that company compared with $40 million the same period last year; 2) reduction in sales from $393 million to $374 million from the second to the third quarter of this year; and 3) the higher Federal income taxes which amounted to about $107.5 million against $90 million in the second quarter.

Assuming the difference to have been due to the amount required for the retroactive tax in the second quarter, the extra tax deduction in the third quarter was equivalent to about 37 cents a share. With this factor no longer operating in the fourth quarter, earnings in that period should swing back to close to the earnings of $1.24 a share in the second quarter. On this basis, total per share earnings for 1951 are estimated at around $4.60 compared with $6.58 in 1950.

An Exception to the Down-Trend

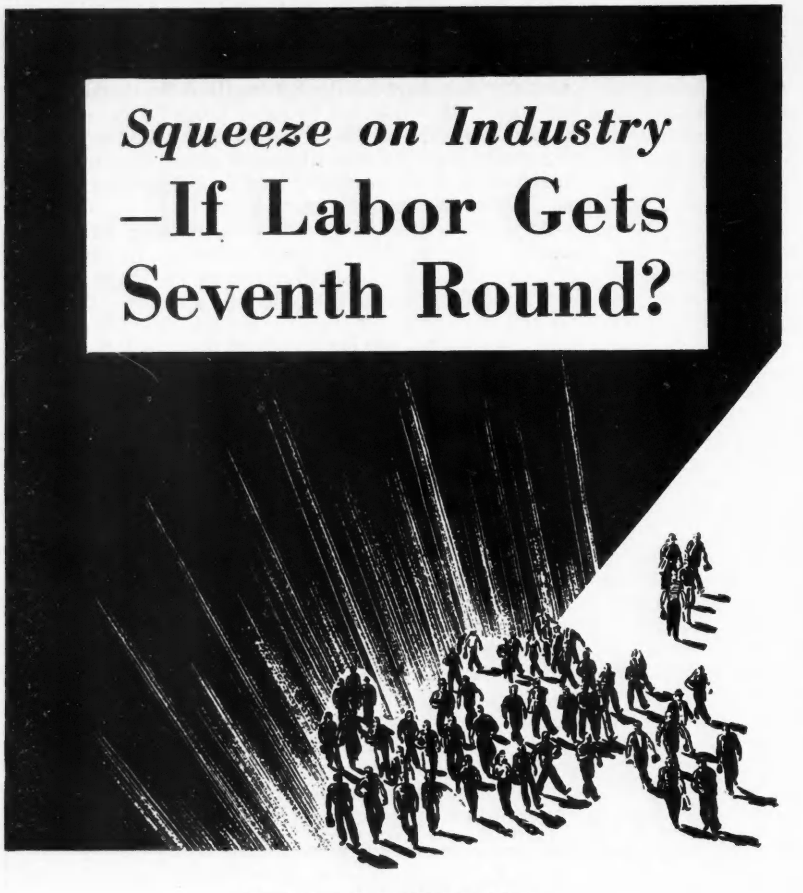
Johns-Manville Corporation is one of the few important industrial concerns to have shown an increase in earnings during the third quarter. Per share profits were $2.12 in that period compared with $1.81 in the corresponding quarter of last year. They also made a favorable comparison with the second quarter, when they were $1.99 a share. Income taxes were $5.0 million compared with the same amount last year, but $3.6 million lower than the second quarter of this year. Johns-Manville in that period accrued at the higher rates in advance of the new tax law, so that provision for retroactive taxes was unnecessary. The com- (*Please turn to page* 202)

Quarterly Comparison of Sales and Earnings

	1951						1950			
	3rd Quarter		2nd Quarter		1st Quarter		4th Quarter		3rd Quarter	
	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share
Air Reduction	$ 29.3	$ .62	$ 30.0	$ .68	$ 28.2	$ .87	$ 26.4	$ .78	$ 25.5	$ .96
American Cyanamid	95.7	1.84[1]	98.7	3.52[1]	102.1	2.80[1]	93.2	1.98[1]	84.8	2.76[1]
Bethlehem Steel	446.7	1.76	449.7	2.30	426.4	2.45	398.4	3.19	370.5	3.33
Bigelow-Sanford	15.6	(d) .71	15.2	.66	30.1	.90	27.4	3.27	25.4	3.05
Caterpillar Tractor	47.5	(d) .13	113.8	1.24	109.6	1.54	96.2	.95	85.5	2.48
Commercial Solvents	12.7	.51	14.2	.56	15.9	.61	16.3	.89	13.5	.57
Du Pont	374.5	.85	393.3	1.24	382.8	1.26	374.9	1.91	350.5	2.08
Eaton Mfg.	42.5	1.33	49.8	1.70	47.7	1.84	41.0	1.29	38.6	2.03
General Electric	509.3	.54	615.0	1.22	569.6	1.21	605.9	2.10	473.4	1.23
General Motors	1,722.0	1.01	1,921.3	1.55	1,959.8	1.58	1,932.3	1.49	1,992.4	2.44
General Portland Cement	7.1	1.28	8.0	1.24	6.7	1.12	6.8	1.28	6.1	1.27
Hercules Powder	53.7	1.05	56.2	1.17	54.4	1.22	46.3	1.43	42.8	1.52
Industrial Rayon	16.5	1.50	15.8	1.36	16.5	1.32	16.5	2.50	15.6	1.55
Johns-Manville	58.0	2.12	62.6	1.99	57.6	1.99	59.4	2.15	55.2	1.81
Minneapolis-Honeywell Reg.	30.5	.61	31.6	.80	34.0	1.23	34.9	.99	30.4	1.71
Monsanto Chemical	67.2	.93	71.8	1.30	67.9	1.25	63.8	.89	60.5	1.81
National Cash Register	46.4	1.16	50.0	1.63	50.6	1.86	51.9	2.26	40.4	1.28
Pacific Mills	20.4	.15	28.2	.96	39.9	(d) .42	38.6	.....	32.6	2.73
Phillips Petroleum	153.0	1.28	145.6	1.24	141.4	1.26	153.1	1.27	139.1	1.14
Pittsburgh Consolidation Coal	44.9	1.30	47.3	1.32	50.5	1.40	53.8	3.75	47.5	1.97
Radio Corp. of America	118.9	.13	116.7	.22	185.5	.80	190.6	.87	146.9	.84
Rheem Mfg.	21.0	.17	22.0	1.18	26.0	1.65	24.5	1.37	20.7	1.60
Ruberoid	17.0	2.07	16.7	1.78	15.9	1.73	12.3	2.69	18.3	2.82
Sharon Steel	40.1	2.34	43.9	3.03	43.6	2.43	41.0	2.14	36.2	2.54
Standard Oil of California	251.8	1.59	237.3	1.62	227.8	1.34	221.5	1.53	225.2	1.63
Texas Gulf Sulphur	19.1	2.07	18.8	1.97	16.0	1.83	17.9	1.70	18.0	1.91
Thompson Products	48.6	1.08	47.5	1.75	43.0	1.92	37.7	1.67	31.9	2.14
Union Carbide & Carbon	232.2	.81	233.5	1.01	224.7	1.01	221.3	.85	206.0	1.34
U. S. Steel	867.1	.83	906.1	1.99	819.4	1.62	817.2	1.16	750.3	2.04
Wrigley, (Wm. Jr.) Co	18.9	1.24	18.5	1.28	18.0	1.27	16.3	.93	20.5	1.77
Yale & Towne	20.7	1.06	23.7	1.35	22.6	1.86	20.1	2.22	16.0	1.14

(d)—Deficit. [1]—Includes equity in undistributed earnings of associated companies.

Squeeze on Industry —If Labor Gets Seventh Round?



By P. T. SHELDRICK

Union demands for another round of wage increases—the seventh since the end of world war II—are threatening to set off another round of price increases since it is far from clear how the price line can be held if pay rates go up another notch. It is not too much to say that it will be up to organized labor, more than any other group, to decide whether the present relative stability of prices will be lasting or merely a brief respite from inflation. It will be up to labor, also, as well as Government, whether and to what extent industry may be subjected to a new price-cost squeeze that may have an adverse bearing on industry's profit outlook.

Controls obviously will not stop the unions from a seventh round of wage demands; the drive for it has already begun. The size of the increases will depend upon how far Government is willing to go in changing its rules in the face of growing labor pressure. The prevalent fear is that the general wage structure will be pushed to new high ground which would mean the practical collapse of anything approaching effective wage stabilization. Automatically, this would present a major threat to economic stabilization generally. Wage-price spirals, as we have learned from bitter experience, are difficult to stop. Usually everybody, including labor, is hurt by them.

Initial pressure is coming from the steelworkers union which is expected to ask 15¢ to 20¢ an hour more. Oil workers are demanding raises of 25¢ an hour, or $2 a day. Steel will provide the first big test with bargaining talks probably starting late in November. Another major test will be forced by John L. Lewis' coal miners who will submit new demands next spring. Both steel and coal settlements in the past had much to do with fixing national wage patterns.

The new wage round will hit its peak in spring. Some 12,000 labor-management contracts are on file with the Labor Department, covering over seven million wage earners, the bulk of them expiring during the second quarter. Whatever the steel, coal and oil workers will get beyond the present formula will prove a natural incentive for others to demand more.

Neither the steel nor oil workers have anything like their new demands coming to them under the present formula which permits wages to rise with the cost of living. Wage rates generally have risen moderately more than living costs since last year, with the former up almost 10%, the latter about 8%. Realizing the weakness of this argument, the unions' plea this time will be based on productivity, with the contention that industry can afford to pay more without increasing prices.

But this plea, too, lacks validity, since productivity has not kept up with wage increases. So far this year, output per man-hour, in general terms, seems to be up only about 3% over 1950. Hence employers are insistent that new wage hikes of any size must be accompanied by corresponding price increases. This places the Government squarely in the middle, and the stabilizers' dilemma is not eased by the fact that an election year is ahead, nor by the additional fact that we can ill afford to have strikes interfere with defense production.

Realizing this dilemma, and what might happen to the economy if things are mismanaged, Chief Mobilizer Wilson, it is understood, will take a personal interest in the steel wage negotiations. This may well mean a tougher Government effort to hold the line on inflation. Mr. Wilson is concerned about "soft" wage policies and the handling of strikes affecting defense output, hence his closer interest in wage-price policies and his intention to take a firm hand. But with an election coming up next year, there may be a limit on how tough even Mr. Wilson can be. All the more, this will make steel a bellwether.

The Politics of Wage Control

Industry on the other hand is distrustful of the Wage Stabilization Board because of its past soft attitude towards labor. Newly reconstituted and empowered to recommend terms of settlement, its actions have frequently been suspected as being tinged with politics. At any rate, there has been very little stabi-

lization, if any. For various reasons, and not the least because of political considerations, wage control has been a difficult and controversial point in the post-Korean control pattern. From an overall economic viewpoint, both the approach to wage control and its evolution have hardly been reassuring, for it distinctly pointed to a guided upward trend rather than stabilization. That's why industry is keeping its fingers crossed.

As it looks, union demands will be well above present wage ceilings, hence Government will have a big part in setting the 1952 wage pattern. More and more disputes are to be referred to the Wage Stabilization Board to avoid strikes. The Board has power only to recommend settlement terms, but its proposals will doubtless be accepted in many cases and a definite trend could grow out of these recommendations. And the trend, it is thought, may definitely favor labor. If so, this may render economic stabilization difficult, if not impossible.

Strong Position of Labor Unions

Apart from political aspects, labor unions today are in a strategically strong position, especially in heavy industries, because of the tight labor situation. Defense industries will require an estimated four million additional workers when peak output under the existing military procurement program is reached. With unemployment close to minimum levels and the possibility of shifting workers from civilian industries limited, the labor supply will be strained. Labor therefore can take a strong stand behind its wage demands. If, of course, organized labor is sincere about wanting to check inflation, it will not exploit these favorable elements in its position. Rather it would be expected to hold down wage demands to a minimum, since under existing conditions, higher wage rates will inevitably force price increases.

The reason is that industry's ability to absorb additional wage boosts, without passing them along in form of higher prices, has been largely eliminated this year. Corporate profits are declining. Higher corporate taxes, increased depreciation charges against income stemming from the postwar expansion program, absence of inventory profits which swelled earnings last year, and narrower profit margins on defense business all contribute to the downward trend. With profits already sharply reduced in many cases, it stands to reason that higher wage costs can hardly be absorbed.

Upward pressure on prices may be increased by the fact that since the defense program puts a ceiling on consumer goods production, wage boosts cannot result in more goods available for wage earners to buy. They can only mean higher prices for the same volume of goods, the usual inflationary process in the circumstances.

Some lines of business may face a different dilemma. Consumer demand in various fields is slack, hence it would be impractical to raise prices. With production already curtailed for lack of demand, absorption of higher wage costs would be difficult in view of the proximity of break-even points because of lower volume. In such instances, the squeeze on business could become quite painful. With higher wage rates prevailing, it is apt to be so in either case, whether industry is forced to maintain ceilings or merely unable to raise them under the present condition of the consumer market.

In the past, policy thinking has been along the lines of holding prices stable and wages flexible. If continued, any such formula would not only produce a severe squeeze on business but in the long run it would probably prove unworkable. While labor spokesmen strongly demand a check on inflation, the fact remains that actions and tendencies of organized labor in the matter of wages simply tend towards more inflation. That certainly will be true if seventh round wage boosts of the magnitude proposed are actually approved.

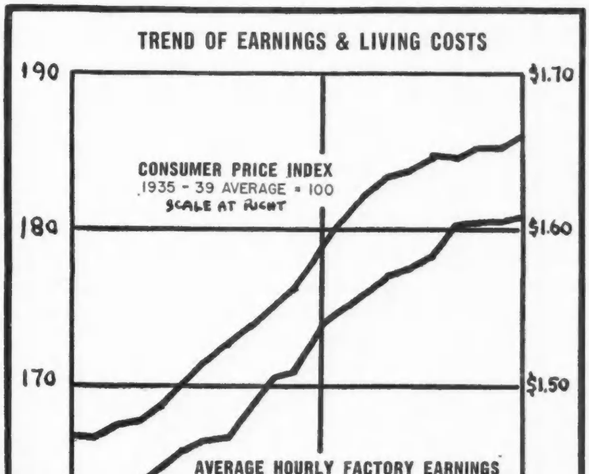
The simple fact is that if there is to be wage stabilization, a line must be laid down and adhered to. Merely jacking up wage rates is not the way to tackle the job, yet that is exactly what the Wage Stabilization Board has been doing. Such a policy will turn out to be nothing but a policy of appeasement that may prove tremendously costly to the whole economy. The price stability we currently enjoy would be quickly superseded by a new inflationary spiral.

The action of commodity prices over the past six months has indeed been reassuring. The official wholesale price index is down almost 4% since March, and the cost of living has registered only a very slight further rise which nevertheless has led to automatic wage boosts for a great number of workers covered by cost-of-living escalator clauses. New hikes of this nature are impending.

Purchasing Power of Dollar Maintained

Even more reassuring has been the success achieved in removing fundamental causes of inflation. Consumers are no longer scrambling for goods, so that demand lags behind supply for many civilian items. Higher taxes assure that the Treasury's cash budget deficit will be small for this fiscal year. Thanks to restrictive credit policies and the desire of business to reduce inventories, bank credit is held within bounds. In short, despite steadily mounting defense expenditures, the purchasing power of the dollar has been pretty well maintained.

It would be a pity, to put it mildly, if that achievement were to be (*Please turn to page* 202)



MANPOWER PROBLEMS

By E. K. T.

"BIG STEEL" is running the National Production Authority, says the U. S. Senate committee for small business which puts it picturesquely: "NPA iron and steel division does the industry goose-step in following the wishes of 'Big Steel'." Complaint is lodged specifically against recent order eliminating the requirement that producers hold 10 per cent of their output each month to fill arriving orders, not allocate their entire production on a first come, first served principle which favors large buyers, committing output months in advance. There isn't much the committee can do except protest, and NPA is used to that.

BELLIGERENT in tone and with sweeping targets, the same committee is going after the military purchasing offices, claiming the percentage of defense work given to small operators is constantly dropping. (The committee is the authority for the blanket statement that an industry employing fewer than 500 persons is "small," regardless of the type of business). Summer-months percentages of contracts going to the smaller facilities dropped so low that the only way they could move was up, says Committee Chairman John Sparkman, Alabama senator. But that statement was an error, he now "confesses," for the spiral has dipped ever lower.

SPEEDY AMORTIZATION of defense plant facilities for purposes of federal income taxes took a new tack Nov. 1 with applications aggregating 34 billion dollars still to be acted upon but recorded before the deadline. The entire amount of approvals for "certificates of necessity" under the program has been only $10 billions, so it is certain that the applications will get some rough treatment. New standards now will control, with building materials supplies and priorities based upon needs as determined by defense needs now playing a more important part than heretofore. Power, railroads, petroleum, and shipbuilding will get the ice stare from now on.

DRAFT of war veterans and fathers, entailing serious dislocations in offices and plants in addition, of course, to family life, is very much in the news and it can be stated with authority, very unlikely to happen. While the rumor persists, many employers will be hesitant to place or promote men in either classification and the damage in both directions can be great. No one should know better than Maj. Gen. L. B. Hershey, chief of Selective Service, who has repeatedly denied such a program is under consideration. But his denials don't seem to catch up with the original stories. Lower draft age would come first.

WASHINGTON SEES:

The country was never nearer manpower draft than it is today, and while defense mobilizers will do everything possible to avoid relocation of civilians, they are encouraging publication of the reminder that "this is everybody's emergency."

President Truman more than 10 months ago took an overall look at the situation. Guided by reports of all agencies, he issued a manpower directive commanding that production be scheduled and contracts given with careful consideration of available manpower; that, when feasible from an economic standpoint, the contracts and materials be sent to the centers of available men and facilities, rather than relocating. (That was not inconsistent with the pleas for industrial dispersal, which was intended to affect only new plants, not existing ones.)

Defense Mobilizer Wilson found the order was being almost completely ignored, and he issued a similar plea for cooperation in August. The Labor Department's Defense Manpower Administration wasn't being consulted.

The problem is coming to a head as a result of New England textile workers and Detroit auto workers complaining they're being frozen out of employment. The textile workers say the contracts are going into the southern states to new plants, the auto workers charging that materials restriction has dropped car production to a trickle but the plants aren't being reconverted, others are being built.

President Truman may have to step in. The Munittions Board insists it must award to the lowest bidder; Defense Plant Administrattion says it cannot control where plants will be erected.

As We Go To Press

President Truman appears to have "boxed in" his critics when he hand-picked Frank E. McKinney, banker and businessman with minor political background, to be chairman of the democratic national committee. It is certain that the republican drum beaters will not waive important financial backing by appearing to criticize one because he followed the profession of banking. And except for military service, McKinney's major connection with government was second top-man in war contract renegotiation. His record in that office will be gone over naturally, but the GOP won't protest if it's found he was "business-minded" (that would be a refreshing discovery in Washington) nor will it complain if he was tough on business -- and thereby please many rank-and-file democrats.

McKinney got off to a good start by proposing that all federal income tax collectors be placed under civil service. President Truman promptly joined with public praise of the suggestion, but there's belief here that the idea actually came from the White House, was "planted" with the new committee chairman. It isn't at all certain that the republicans will take this proposition with great cheer. As a practical proposition it means stacking the collectors list with democrats who'll serve for the rest of their lives (or "during good behavior," which in the light of recent developments might mean a much shorter tenure.) It happened when FDR put the postmasters under lifetime, civil service terms, freezing in office the thousands of democrats appointed by the democrat-controlled administration. The extent of objection made by the GOP should be a good tipoff to how confident the party is that it will be doing the appointing after 1952.

Not only the bookmakers who handle race track bets, and their customers, but also many others who have been put to trouble and expense responding to congressional questionnaires, will watch with interest the outcome of a challenge being made in court here testing the constitutionality of the new tax law requiring bookies to buy a $50 occupation tax stamp and pay 10 per cent of their profits to the Treasury. Off-the-track betting is still illegal; in fact its legalization within a state would be the function of the affected state, so the tax is not a "license" to carry on the business. Bookmakers contend that this being so, they are being asked to testify against themselves, in violation of a constitutional protection. But the broader base of the appeal is the requirement for disclosure of financial and other matters.

Closely akin to this litigation and important because decision will be made in a federal court and, perhaps, speedily adjudicated upon appeal to the Supreme Court, is the District of Columbia suit to decide whether policemen may be required to disclose their financial condition, sources of income, investments, etc. The right of privacy is raised as a barrier. Somewhere in the two decisions should come guidance for corporations and individuals who don't believe congressional committees have the right to go as far afield as they frequently do when demanding "reports."

The British have taken Washington again, this time in a sentimental sense. Princess Elizabeth who some day may be Queen of England captivated this important center of world affairs, talked with officials with an obvious maturity of judgment, managed to avoid criticism -- and paved the way for either Winston Churchill or Anthony Eden to come here, probably before year's end, and discuss Britain's financial situation.

If the Princess mentioned money matters in her talks with Mr. Truman, the fact was not divulged. Likelihood is that she didn't. But she engendered much good will, something that usually pays off. The visit to this country was planned before the labour government lost out, and Churchill reportedly is in no mood for tin cup approach to the Treasury, can be expected to lay it on the line: more money or less armament production at home.

The politically rebellious southern states have agreed that Senator Harry F. Byrd of Virginia, is to be their front man in the next drive to chase the Truman Fair Deal out of Washington, although Senator Richard Russell of Georgia, will be the presidential nominee if he can be prevailed upon to accept. He wouldn't take the nomination four years ago, seems receptive now. Choice of Byrd to be nominal leader and spokesman is a frank play to win some states north of the Mason-Dixon Line by presenting a leader in federal economy as an advocate against the background of heavy federal expenditures and high taxes. The Virginia senator has been off the Truman reservation for several years, but he refused to leave the democratic fold in 1948 to go along with the Dixiecrats.

Congress has played into the hands of Senator Joseph McCarthy by failure to pass legislation that would permit Admiral Nimitz and other members of the Commission on Internal Security to receive other federal emoluments, fill other appointive jobs, while serving as commissioners. President Truman in a moment of pique has abolished the board, even though only temporarily, and that's where McCarthy comes in: he's placed in the position of seeming to be the only crusader against subversives. Senator McCarran tied the legislation up in his judiciary committee after the house had approved it and every indication was that the senate would concur.

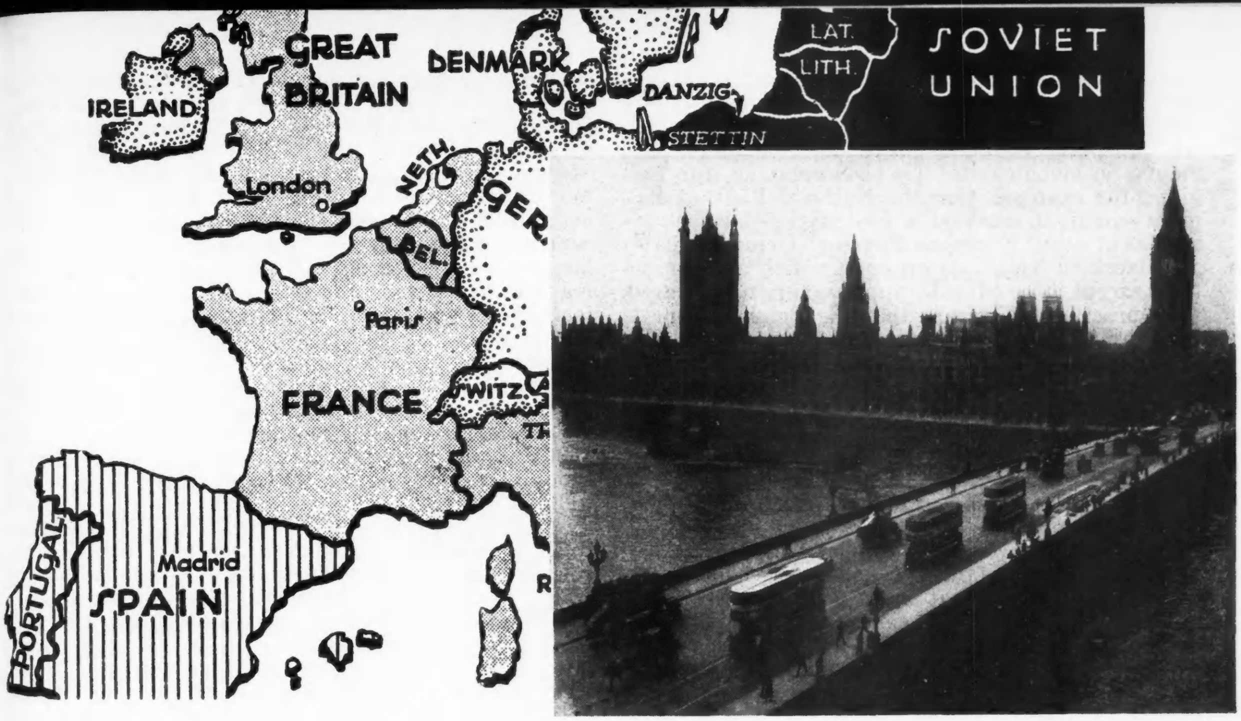
Liquor wholesalers and retailers are catching their breath and restocking warehouses after what probably proves the biggest month in their sales history from a dollars-and-cents standpoint. The effective date of new and higher taxes on spirits formed lines in front of Capital dispensaries, just about cleaned out available stocks as purchasers beat the Nov. 1 deadline for the old prices. Now the shop keepers are wondering if this merely means that the Christmas and New Year's shopping is being done early and final quarter business won't, after all, be out of proportion to normal merchandising. Depends, probably, on whether the buyers store away or stow away their fifths.

A "czar" for organized labor operating along lines matching the czar, or commissioner, of organized baseball is in prospect for CIO; it's more than prospect, it is virtual certainty for the man has been picked for the job and only his acceptance is awaited. He's Frank P. Graham, former War Labor Board official, later appointive senator from North Carolina, defeated for election allegedly because he was "too liberal." Senator Wayne Morse of Oregon, also with WLB background, would be equally acceptable.

It isn't recent discovery but it is a matter that cuts deeply into, and across, union policies, that jurisdictional strikes are costly and wasteful. Paying union benefits to strikers taps the coffers of all the contenders, widens breaches, and seldom settles anything basic in the long run. It isn't possible to determine lines of jurisdiction with particularity that would guarantee their observance. So the CIO is planning to set up an umpire whose determinations all affiliates will agree in advance to accept. Not the least of the sufferers are the employees who must stand by helpless and see production come to a standstill, especially in the construction trades where the jurisdictional strike is a frequent hazard.

Veterans organizations are starving for memberships in an era of plenty -- with a pool of almost 19 millions to draw from, the four major organizations have fewer than 4 million members on their paid-up lists. The social implications of such a situation may concern the former servicemen, but there are other angles which are of greater interest to the politicans. If there ever was a "veterans vote," in the sense that it is cast substantially en bloc (doubtful), there is less of it than ever before. The American Legion has about 2.5 million members, making it the largest; the Veterans of Foreign Wars, Disabled American Veterans, and the AMVETS divide another 1.5 million members. And since these organizations often are poles apart on federal matters including bonus and other money matters, political importance is slight.

Recent events prove that a Korean truce is still far from a sure thing. Even if the Reds mean business, there will be no quick settlement, and there is doubt whether they mean business. Some believe the Communists now realize that they cannot push farther South in Korea and that, as a result, they are inclined to concentrate on holding their gains in the North. They would favor an end to the shooting but are indifferent to a real truce, or a real settlement. Hence their emphasis on a quick end to actual hostilities, and their foot-dragging when it comes to discussion of other aspects of a truce.



What Prospect of....

New Currency Readjustment Abroad?

By V. L. HOROTH

The New York foreign exchange market and other international money centers have been buzzing for the last two months with rumors that another wave of currency devaluations—like the one in September 1949—is about to sweep the Free World, and leave but a few countries unaffected. A Belgian economist of note is quoted as having said recently "that only five countries in Western Europe might escape: Switzerland, Italy, Western Germany, Portugal and Belgium."

To be sure, this time devaluation rumors are much more plausible than the rumors predicting the upvaluation of the pound sterling, the Australian pound and the Swedish krona some six months ago. Without much warning, a large number of countries have been plunged into balance of payments difficulties, in most cases as a result of a malaise which, for political and social reasons, will be difficult to cure—that of "living beyond their income in the face of rearmament realities." As a recent editorial in the London Financial Times puts it: "What makes the prospect so dark in Great Britain and other countries is not the balance of payment crisis itself but the inability of the governments to do much about it."

The balance of payments crisis abroad was heralded a few months ago by the reappearance of the dollar shortage problem. Some time during the second quarter of this year, the outflow of gold and funds from this country abroad was reversed. Despite grants and gifts, international payments are again running in our favor, and during the four months ending October 31, we regained some $480 million in gold, or about one-fifth of the gold lost between September 1949 and June 1951. Our net short-term liabilities to foreigners at the end of August were about $500 million less than at the peak in October 1950.

However, it is the foreign data that give a truer picture of the seriousness of difficulties abroad. The $600 million loss in the sterling area's gold and dollar holdings during the third quarter, topped by another $320 million loss during October, took everybody by surprise. In the six months ending September, the foreign exchange holdings of the Bank of France declined by nearly $180 million to $375 million. Those of Italy have dropped by some $150 million since the outbreak of the Korean war. Dollar balances of the Netherlands are down to about half the amount held one year ago.

Flight of Private Funds Abroad

Many Latin American countries also, notably Brazil, Mexico, Peru, and Uruguay among others, are losing foreign exchange holdings accumulated during the post-Korean commodity boom. Among the countries which have kept their gold and foreign exchange balances more or less intact are the Scandinavian countries (Finland excepted), Belgium—which has added to hers nearly $250 million since the beginning of this year, Portugal, Indonesia, the Philippines, Cuba, Argentina, Venezuela, Western Germany, and Japan.

As usual, the spread of rumors has led to a number of developments which have intensified the pressure on international payments of the countries in-

volved. Private funds are fleeing abroad, many exporters are reluctant to repatriate their export proceeds, and some importers of merchandise from the "suspect" countries have been delaying payments. So much capital has been escaping into Belgium, for example, that the National Bank of Belgium saw fit to establish a free market for the currencies of other European Payment Union countries (Switzerland excepted) through which all transactions except those officially approved are now cleared.

In practice this means that the Belgian franc is being upvalued for all except trade transactions. The decision last month of the International Monetary Fund to permit gold producers to sell a limited portion of their newly produced gold at premium prices, has probably also added to confusion and uncertainty about exchange rates of different countries.

Dollar Has Acted Better Than Gold

In general, however, the dollar has appreciated more than gold. In fact, free gold prices show a tendency to sag, now that more gold is likely to be offered. In France, for example, the dollar was quoted at one time at 445 francs, or almost as high as in the summer of 1949. In contrast, gold prices in Paris recovered only to the levels established earlier this year. It was the transferable sterling that has received that worst beating, however. Quoted at around \$2.60 last May, it plunged to \$2.35 in October, but recovered since to about \$2.42. The heavy discount encourages the misuse of transferable sterling and, as has happened two years ago, Great Britain is again being deprived of her legitimate dollar earnings.

To many people, the simple way of curing balance of payments difficulties lies in upvaluing or devaluing the currency of the country involved. But the mere tackling of symptoms often creates more problems than it solves. Stated in the simplest terms, pressure on a currency usually develops when *a country imports too much and does not export enough,* and in nine cases out of ten, the main reason for this can be laid to *internal inflation.*

For example, a country may not be exporting enough because her products, due to internal inflation, are priced too high. This was the predicament of Great Britain and other Western European countries in 1949. Not only were their products overpriced in international markets, but because of the rigidity of their economies, they were unable to lower production costs. Devaluation offered a way out.

Or a country may not be exporting enough because the products are absorbed by the people at home who have too much money to spend. A devaluation in this case would merely lower the intake in foreign currencies. The way out lies in reducing internal purchasing power through taxation, licensing and other controls.

The Problem for Britain

Britain's balance of payments difficulties fall this time into the second rather than the first category. The country has been living beyond her income. "The sum of all demands," wrote the London Financial Times about a month ago, "that are being put on the country's productive capacity—by rearmament, by welfare service, by Government expenditure, and by civilian consumption—are too much for equilibrium in overseas payments. Britain is again attempting to do too much." Obviously, the way out of the present difficulties lies in (1) producing more, (2) encouraging saving, (3) discouraging all the nonessential activities that thrive on the public's having too much money to spend, (4) trimming imports and, above all, through (5) encouraging exports. In contrast to 1949 when Britain's exports bogged down because her goods could not compete in international markets, she can sell almost anything today, particularly in the way of capital goods, provided they can be wrung out of the British economy.

The Labor Government knew all this. The former Chancellor of the Exchequer, Mr. Gaitskill, used to repeat it in so many words. Last June he raised the export target for the second half of this year to £200 million to £1,600 million, and the present Chancellor, Mr. Richard A. Butler, has raised it £280 million.

When it came to carrying out the measures which were to restrict internal consumption in order to release additional resources for rearmament, the Labor Party failed utterly. (1) The measures they took were too innocuous, for fear that the electorate might be alienated by further controls and regulations; a point of no return had been reached. Taxes were run up to a point where they were no longer deflationary but inflationary, because they encouraged dis-saving. Holding the line on wages failed because under conditions of full employment, the essential industries had to bid for labor. The first round of wage increases last spring added an estimated £150 million to the purchasing power, and a second round was in the offing.

The Labor Government had finally reached what the London Banker called a "posture of defeatist impotence." It was caught in a blind alley. Additional complications set in: (1) increased armament requirements, (2) the loss of Iranian oil, and (3) the rise of prices of food and raw materials, which together added some £600 million to external expenditures over and above those of 1950. The overseas sterling area has been clamoring for more goods. In addition the rate of exports has slowed down. The most flourishing of the postwar export industries, the engineering and metal trades, switched to rearmament, and the other exporting industries, such as textiles, were faring badly because of Japanese and German competition and a drop in demand in general.

No Great Change in Conservative Program

Can the Tories succeed where Labor failed? Mr. Churchill's speech in Commons and the measures announced last week by the new Chancellor of the Exchequer show that the Conservatives will try to take the pressure off international payments by trimming imports and by treating the country with another "dose" of austerity. But it seems that there will be no putting the country through an "economic wringer" in the foreseeable future. The fact that the Tory margin in Commons is almost as precarious as was that of Labor implies this. The new Government will certainly try to avoid pulling the country into a series of damaging strikes. It appears that there will be no appreciable cut in the food subsidies and the welfare state program will not be touched. Taxes will go up some, as already announced by Mr. Butler. Private business will undoubtedly be given more leeway to make decisions

and plan ahead. But otherwise, things will be left pretty much as they are, and hence wages will probably continue to rise and add to inflationary pressures.

However, Mr. Churchill, who opposed the 1949 devaluation, cannot be expected to give up without a fight. While temporizing at home, he may try to bolster up the pound by a more vigorous foreign policy and by persuading the United States to resume Marshall aid grants or to increase our contributions in raw materials and dollars to Britain's rearmament effort. Astute politician that he is, Mr. Churchill may even try to lessen the tensions between East and West, so as to be able to stagger the rearmament effort over a longer period. That would take the heat off internal inflation and commodity prices.

Thus the battle for the defense of the pound is on, however lacking in ardor. If the spiral of rising wages, prices and costs can be halted, the pound may be saved. But if the rise in British production costs undermines Britain's ability to compete in world markets, devaluation is inevitable.

The pressure on Continental currencies, Italian lire, Dutch guilders, and particularly the French franc, stems from the same source as the pressure on the pound. The gaps in international payments have reappeared because the fires of inflation, never quite extinguished, have been rekindled by high raw material prices and the new armament burdens. Internal strains and the potential dangers to currencies differ from country to country, depending upon other burdens, the magnitude of the rearmament program, and the success of the measures taken to cope with them.

The Netherlands, for example, which still has a big job ahead in both rehabilitation and re-equipment, has categorically refused to sacrifice these tasks to the rearmament burden apportioned to her. The recovery of Germany has helped the Dutch economy, and for the time being, the situation is still in a manageable stage.

The situation in *France* is much more explosive. The vast majority of Frenchmen have no stomach for governmental controls or increased taxation. The relatively small increase in taxes (mostly in excise taxes) has been far from sufficient to finance the war in Indo-China and re-armament with the result that there may be a huge deficit—almost a trillion francs—this year. There have been two rounds of wage increases, one in March and another in September, raising wages 11% and then another 15%. The main hope of the French Government, if the franc is to be saved, lies in obtaining more American aid, or rather in inducing the U. S. Government to place in France orders for armaments for its own account and that of other Western allies.

Inflation of Varying Dimensions

In *Italy* the rearmament wheels have just barely started rolling. The inflation peril has so far come largely from high commodity prices. In *Belgium* the pressure on international payments stemming from rearmament and high commodity prices has been more or less obliterated by a boom in steel exports (most of the Belgian steel makers are, however, marginal producers) and a heavy inflow of refugee funds from other European countries. In the *Scandinavian countries,* the rearmament burden has been relatively light, and the rise in the cost of imports has been offset by the rise in the prices of exports (paper, timber and steel), in the case of Sweden, and higher steamer freight rates in Norway.

A large number of raw material producing countries have been suffering from what may be called "imported" inflation, expansion of internal purchasing power due to heavy export earnings. As examples may be cited Malaya, West Africa, South Africa, Ceylon, Indonesia, and a number of Latin American countries. Increased imports, preferably of capital goods which encourage greater productivity, are the usual prescription to combat this kind of inflation.

Judged by the rise of prices (see accompanying table), Australia has probably developed the most acute inflation as a result of (1) huge export surpluses due partly to a fantastic increase in wool prices after Korea, (2) heavy government expenditure on social services (*Please turn to page* 200)

Price Rises Since Sept. 9, 1939

	Wholesale Prices				Cost of Living			
	Sept. 1949	Latest Month (1937 = 100)	% Change	Month	Sept. 1949	Latest Month (1937 = 100)	% Change	Month
United States	178	206	+16	Sept.	165	181	+10	Aug.
Canada	182	224	+23	Aug.	104(a)	123	+18	Sept.
Mexico	287	420	+46	Sept.	396	477	+20	Aug.
Cuba	......	......	....	....	236	249	+ 6	June
Brazil	......	......	....	....	129	152	+18	June
Colombia	......	......	....	....	303	394	+30	Sept.
Uruguay	......	......	....	....	180	206	+14	May
Great Britain	212	299	+41	Sept.	180	207	+15	Sept.
France	2,200	2,950	+34	Sept.	2,110	2,670	+27	Sept.
Netherlands	267	369	+38	July	216	267	+24	July
Belgium	334	429	+28	Sept.	376	454	+21	Sept.
Sweden	189	267	+41	Aug.	161	188	+17	Sept.
Switzerland	196	200	+ 2	Aug.	162	169	+ 4	Sept.
Australia	190	278	+46	July	168	210	+25	June
India								
South Africa	194	238	+23	Aug.	159	178	+12	Sept.
Philippines	390	404	+ 4	Sept.	334	407	+22	Sept.
Japan(a)	172	277	+61	Aug.	183	202	+10	Aug.

(a)—1937 = 1

. . . . *Upsurge in* . . . .

Business Machine Industry

By FREDERICK K. DODGE

These are boom days for the office machine industry. The reason for it is two-fold:

Current industrial expansion coupled with rising labor costs are generating wide-spread demand for mechanization in the office similar to mechanization in the plant. And, defense orders, both for precision-type equipment required by the armament program and for electronic computers are now capturing an estimated 5% of the industry's current near-capacity output. By next year, it is expected, these orders will total some 15% to 20% of industry sales.

As a result, when office equipment makers' earnings for the year are totalled, even after higher taxes, they will show substantial gains over 1950. When measured against the performance of other industry groups, they are expected to assume a position of leadership. Evidence of this is seen in a compilation of third quarter earnings for nineteen industry groups of which only seven show a gain over last year. Office equipment makers with an 11% increase in profits rank fifth, preceded only by railway equipment, petroleum products, paper and allied products and metal products.

According to industry analysts, production as a whole during the first half of the current year rose 70% above 1950. Payrolls were up some 30%. Though output during the summer showed a greater than seasonal decline due to a softening in demand, orders this fall have more than compensated for that decline with the result that many leading office machine makers now hold a substantial backlog of orders.

Far more interesting, however, than the bright prospects that industry holds to the year end—and with little doubt through 1952—is the fact that the cyclical nature of the office equipment industry, from the long-range viewpoint, appears to be diminishing. Though in the future there might well be ups and downs in the demand for typewriters, small calculators, billing machines and similar standard equipment, the fact that modern business and the sciences upon which it is built are growing more complex with the resultant need for more extensive, efficient and accurate statistical records and analysis, makes it more difficult to defer purchases especially for the newer electronic devices even during periods of economic setback.

Further, the mounting requirement of State and Federal tax programs, of social security, unemployment insurance, sales and excise taxes, labor legislation and the host of other new government regulations on inventory, prices, material allocation and credit that show promise of lasting for quite some time, call for a larger work load in the office at a time when clerical help threatens to grow tighter and the trend points toward shorter working hours. These factors all make it imperative for business to use an increasing number of calculating, tabulating, computing and other record-keeping devices. Beyond these factors, the plans that leading office machine makers have for product diversification—programs broader in scope than at any other time in their history—all point to a continued uptrend in sales.

Foreign Sales of Growing Importance

Together with this increased domestic demand, export business has risen sharply this year. Heaviest orders are expected to continue from Canada and Latin America with Western Europe, formerly the

industry's largest customer, next. During the pre-war 1936-39 period, the foreign sales of leading producers averaged close to 30% of the total against an average of 25% in 1948-49. And, this average is now in some instances already exceeding the pre-war rate.

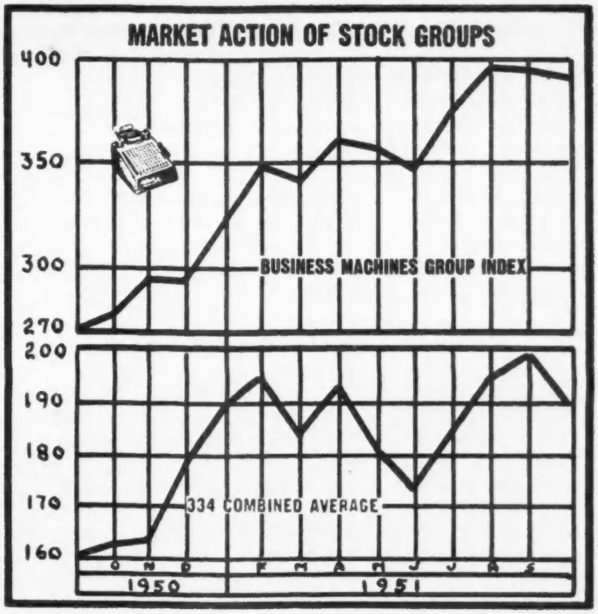
Raw Materials a Problem

Chief worry of the industry today is not sales—except possibly for the typewriter makers—but raw material supplies. Although the industry's essentiality is recognized currently by the government as it was not during World War II, office equipment makers can expect to get by next year no more than 48% of their pre-Korean allotments of vital metals. Current output, based on cutbacks of 30% to 35% for steel and 50% for aluminum, is preventing plants from running at full capacity. While at mid-summer, according to industry spokesmen, most producers held a three to six-month inventory of parts and materials, a substantial portion of this accumulation has now been worked off.

However, in order to overcome these raw material shortages, industry leaders all are embarked upon research programs for material substitutes. So far the only new material in use is a magnesium alloy which is being substituted for aluminum, and which is proving more costly, thus narrowing profit margins. And, for at least one prominent file cabinet and desk maker, wood is now replacing steel, in an effort to maintain shipments.

Operating under OPS regulation CPR 22 and awaiting some leniency under the Capehart Amendment, office equipment makers are currently suffering little hardship on retail pricing. Truth of the matter, however, is that so far as standard office equipment is concerned, the sales situation is still too competitive to permit any individual manufacturer to raise his price even though he were permitted to do so. This is because, for these products, inventories at the retail and wholesale levels continue to be ample.

How long this situation will remain, however, is pure speculation. Following announcement of recent raw material cut-backs, the industry witnessed a rush of orders which, if maintained over any long period of time, could certainly create shortages such



as exist already for electronic computers where order backlogs extend up to two years.

Industry analysts who predict peak output and earnings for this year, are equally certain that profits will decline in 1952 even if current production rates were maintained. For one thing, higher corporate taxes for a full twelve month period will take their toll. This year's tax rate increase is estimated to require a 29% sales increase in order to be offset. While such an increase is thought to be feasible this year with sales running more heavily on the civilian side, next year, with heavier government business and less raw material, it is doubtful whether profits will be able to stand up as well.

On the other hand, the industry is well situated as far as its EPT position is concerned. Business was good during the 1946-49 base years due to the accumulated demand that resulted from diminished output during the war years. However, as more material substitutes are used next year, profit margins will narrow. Also the industry has the dubious

Position of Leading Office Equipment Companies

	Interim 1951			1950							
	Net Sales (Millions)	Net Margin	Net Per Share	Net Sales (Millions)	Net Margin	Net Per Share	Recent Price	1951 Div.*	Div. Yield	Price Earnings Ratio†	Price Range 1950-51
Addressograph-Multigraph	$ 57.3[1]	9.0%	$6.84[1]	$ 44.3[2]	12.2%	$ 7.22[2]	60½	$3.50	5.7%	8.3	63¾-39⅛
Burroughs Adding Machine	54.0[7]	7.7	.84[7]	86.9	9.2	1.60	17⅜	.90	5.1	10.8	18¾- 12⅜
Felt & Tarrant Mfg.	9.9[8]	13.4	2.51[8]	7.6	5.6	.81	16¼	1.10	6.9	20.0	18 - 10
Inter. Business Mach.	......	......	6.92[8]	214.9	15.4	11.48	204	4.00[9]	1.9	17.9	240 -185
National Cash Register	147.1[8]	6.2	4.64[8]	170.4	7.1	6.16	54½	2.60	4.7	8.8	59½- 28⅛
Pitney-Bowes	18.1[8]	5.8	.90[8]	21.6	9.0	1.77	16¼	1.00	6.1	9.2	19⅞- 14¼
Remington Rand	108.4[3]	7.0	1.57[3]	187.4[4]	7.5	2.87[4]	21	1.25	6.0	7.3	22½- 10⅝
Royal Typewriter	60.3[1]	7.3	3.89[1]	43.4[2]	9.0	3.39[2]	23⅞	2.00	8.3	7.0	26⅛- 16
Smith, L. C. & Corona	31.8[5]	5.6	5.60[5]	25.7[6]	6.3	5.04[6]	21½	2.00	9.3	4.2	25½- 14⅝
Underwood Corp.	56.6[8]	6.1	4.72[8]	58.1	8.4	6.71	54⅞	4.00	7.3	8.2	58 - 39⅞

*—Indicated or estimated.
†—Based on 1950 earnings.
[1]—Year ended July 31, 1951.
[2]—Year ended July 31, 1950.
[3]—6 months ended Sept. 30, 1951.
[4]—Year ended March 31, 1951.
[5]—Year ended June 30, 1951.
[6]—Year ended June 30, 1950.
[7]—6 months ended June 30, 1951.
[8]—9 months ended Sept. 30, 1951.
[9]—Plus stock.

honor of showing the highest labor cost per dollar of sales among manufacturing industries and the largest component of production costs for office equipment makers are wage rates.

For the current year, the outlook is for dividends to be maintained with some increases possible, and generally, payments should be maintained also in 1952. As a group, these equities are showing an average performance. Bolstered by good EPT exemption and by substantial government orders for which no expensive retooling is necessary, the industry's near future appears dimmed only by the tightening of raw material supplies.

Electronic Division's Good Prospects

Best situated over the longer term will be those companies making electronic computing machines, equipment needed for research, payroll and tax forms and those whose income is derived in considerable measure from rentals and parts sales. At current market, these shares appear to be reasonably priced. On the other hand, companies heavily dependent on sales of typewriters and standard office equipment will be rather more subject to competitive influences.

The company least likely to suffer from any sales decline is *International Business Machines,* the world's largest producer and renter of office equipment. Third quarter net earnings fell to $20 million from $23.4 million in the similar 1950 period or to $6.92 per share from $8.09 per share largely due to higher taxes. More vulnerable to excess profits taxes than other companies in the field, this single item, in the third quarter, came to $5.5 million. The pretax margin, however, is the highest in the industry and shows the greatest relative stability. Currently at 43.1%, it was 43.5% in 1936, fell to 34% in 1946, rose to 37.3% in 1948 and the following year climbed to 41.8%. Last year's sales of $214.9 million showed a $31.4 million dollar increase above the previous year. In fact, despite cyclical swings in business activity which affected the sales of other office equipment makers, IBM has shown constant growth. This is due in good measure to the revenue derived from rentals which are estimated to net the company close to 70% of its income.

Also showing better than average growth prospects is *Addressograph-Multigraph Corporation.* For the fiscal year ended July 31, net sales totalled $51.3 million against $44.3 million in the previous year. Mainly because of higher taxes, net earnings declined to $5.16 million from $5.44 million in 1950 or to $6.84 a share from $7.22. Through the end of the company's fiscal year, due to sizeable order backlogs, stable current demand and a favorable inventory position, shipments should hold at current high levels.

Two Growing Companies

The future, however, is dependent upon larger defense orders which would suggest narrower earnings, and the success the company will have in new product exploitation. Currently, it is estimated that 55% of sales derives from accessories including sale of paper for use with the company's machines.

Among companies showing greatest growth possibilities and diversification of product, next to IBM, are Remington Rand and Burroughs.

For the six months ended September 30, *Remington Rand's* sales totaled $108.4 million against $78.8 million in 1950 with earnings increasing to $7.6 million from $5.3 million or to $1.57 per share from 1950's $1.09 per share. Apart from a broad line of office equipment, including the more complex computer machines, the company is also engaged in industrial television operations—and reportedly also experimenting with color TV in this field. The company engaged heavily in new product output during the past three years and has added several new electric devices to its regular line. They are meeting sustained demand which has created a good order backlog for this part of output. Further, Remington Rand is heavily engaged in defense work. The two major projects in this connection are its operation of a permanent shell loading plant, the Louisiana Ordnance Works at Mindon, La., under an Army contract and the automatic guns chargers that it is supplying from its Elmira, N. Y., plant. Overseas operations for the company have increased also, it is noted.

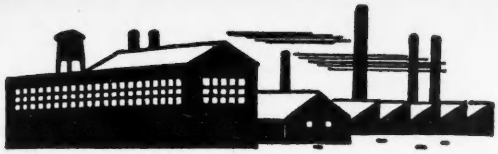
Burroughs Adding Machine Company is building a $2 million laboratory near Philadelphia for research into electronics and high speed office equipment. Also, last July, the company acquired the Control Instrument Company of Brooklyn, designers and manufacturers of electronic instruments and fire control devices principally for the Navy. Thus the company is strengthening both its regular line of office equipment and its ability to acquire government orders. To meet cash requirements necessary for this expansion, Burroughs borrowed $4 million in July.

Net profits for the first six months of the year equalled $4.1 million or 84 cents a share against $2.3 million or 47 cents a share in the similar 1950 period. Adding to the volume of this business was the great demand for microfilming equipment which the company sells as sole representative for Bell & Howell, makers of micro-film. Order backlogs reportedly continue heavy and shipments on two major defense contracts have started.

The Typewriter Manufacturers

Among the manufacturers of standard office equipment, *Royal Typewriter Company's* sales and net hit a peak in the year ended July 31. Sales amounted to $60.3 million against $43.4 million in 1950 with net income reaching $4.4 million or $3.89 a share against $3.9 million or $3.39 per share in the previous year. The company has already substantially benefitted by defense contracts, having recently been awarded a $15 million Government order. And, with improvement in the international monetary situation, Royal notes substantial improvement in the sales of its foreign subsidiaries. However, the company recently reduced its work week from 50 to 40 hours as both the rate of new orders and current order backlogs were contracting. It is believed that although Royal is suffering a slight setback in civilian business, Government orders are sufficient to prevent any serious dip in overall volume.

Fourth largest in the typewriter field, *L. S. Smith & Corona* reported a 24% increase in sales and a 32% gain in profits for their year ended June 30. With sales of $31.8 million against 1950's $25.7 million, more efficient *(Please turn to page 200)*



★ FIVE ★

Defensive Stocks

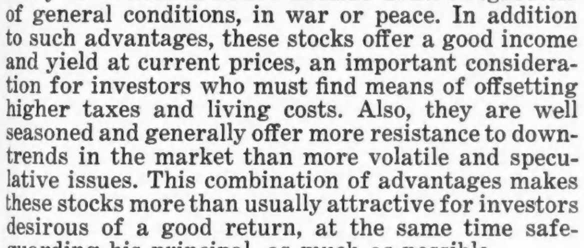
—Affording Safe Income

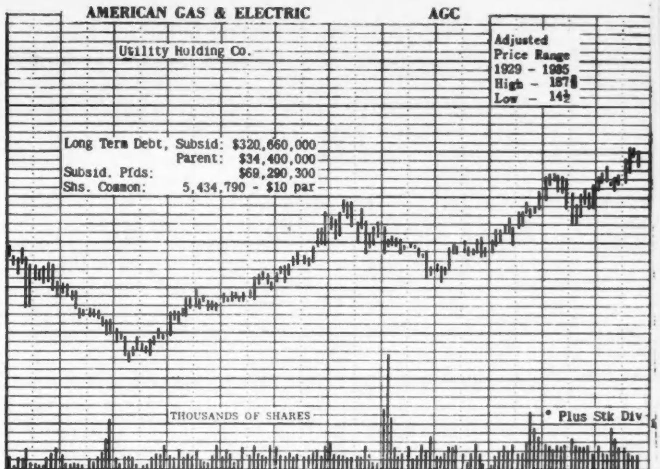
SELECTED BY OUR STAFF

The sharp decline in earnings during the third quarter (an analysis of this situation is given elsewhere in this issue) accompanied by a series of reactions in the stock market, is stimulating a search for sound securities whose income can be depended on in the complex period ahead. For this purpose, we have selected a group of five stocks, representing different industries, with a long and substantial record of earnings and dividends, and in a more or less sheltered position.

All of these stocks represent companies which are in a basically strong position in essential industries or businesses, and whose products or services are likely to remain in active demand almost regardless of general conditions, in war or peace. In addition to such advantages, these stocks offer a good income and yield at current prices, an important consideration for investors who must find means of offsetting higher taxes and living costs. Also, they are well seasoned and generally offer more resistance to downtrends in the market than more volatile and speculative issues. This combination of advantages makes these stocks more than usually attractive for investors desirous of a good return, at the same time safeguarding his principal, as much as possible.

The companies represented in our list are all regarded as leaders in their respective industries. American Gas & Electric Co. is one of the strongest public utilities; General Telephone Corp. is the largest independent telephone system outside of the Bell System, with a fine record of earnings; Household Finance Corp. occupies an important place in the small loan field; National Dairy Products Corp. is the largest and most successful in its field; and J. C. Penney, of course, is one of the strongest retail chain systems in the country. An investment in all these stocks would offer an excellent degree of diversification. In the following pages, we present brief descriptions of these companies, together with pertinent data relating to financial and earnings factors.





1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
3.00	2.72	2.21	2.23	2.32	2.32	3.80	4.17	4.32	4.31	4.86	
2.00	2.00	1.70	1.80	1.80	1.90	2.15	1.25	1.00	*2.25	3.00	
37.6	20.4	9.6	12.0	20.6	29.8	18.3	33.6	23.5	38.6	39.3	Wkg Cap $ Mil

AMERICAN GAS & ELECTRIC COMPANY

BUSINESS: Company supplies power to portions of Michigan, Indiana, Ohio, West Virginia, Kentucky and Tennessee. Demand for power in this vital defense area is constantly increasing.

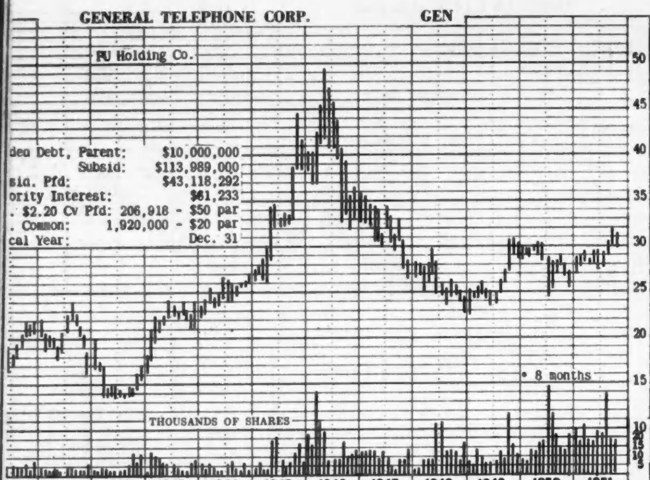
OUTLOOK: Acceleration in the rate of power consumption in the company's territories, location of the greatest industrial complex in America, is on a scale which has not only taxed company facilities but which has required a $300 million expansion program, to be completed in the next two years. A considerable portion of this expansion has already been completed, with the result that kilowatt-hour sales in 1950 were 11.8 billion against 9.9 billion the previous year, with further gains in 1951. Up to recent years, growth has been in the commercial and residential fields rather than industrial but the latter is now showing the greatest gains. Demand for power from industrial sources is expected to increase substantially with expansion of production programs for steel, aluminum, magnesium, various chemicals and military items. By the end of 1953, the System's capacity will be 3,734,000 kilowatt hours against the present figure of about 2.5 million kilowatt hours. Net profit for the system for the year ended August 31, 1951, amounted to $4.82 per share of common. It is estimated that the full 1951 earnings will be close to $4.90 a share, but this latter figure is on the additional amount of stock, a 5% stock dividend having been paid in September. With operating revenues having increased from $158.9 million to $183.9 million in the year ended August 31, and conditions favoring continued gains, it is likely that 1952 will produce earnings considerably above $5 per share. In order to finance its expansion program, the company sold about 400,000 shares at 52¼ last April but future financing will take the form of senior shares.

DIVIDENDS: The company pays dividends of $3 annually and has made payments since 1910 without a break. In view of the fine earnings record and prospects, the dividend is secure.

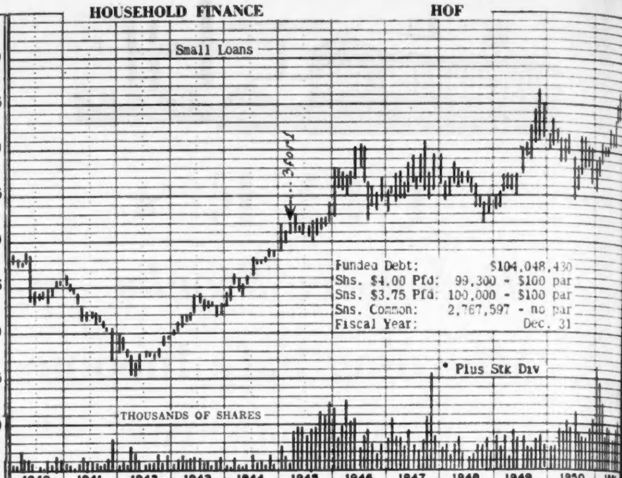
MARKET ACTION: Recent price—56⅞ compares with a 1951 range of High—60⅞, Low—51⅝. Without regard to any stock dividends that may be paid in the future, the yield is about 5¼%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1941	1950 (000 omitted)	Change
ASSETS			
Cash and Marketable Securities	$ 30,851	$ 45,652	+$ 14,801
Receivables, Net	10,194	18,900	+ 8,706
Materials and Supplies	9,383	26,192	+ 16,809
Other Current Assets	570	1,277	+ 707
TOTAL CURRENT ASSETS	50,998	92,021	+ 41,023
Utility Plant	494,254	695,195	+ 200,941
Investments and Deposits	3,588	35,168	+ 31,580
Construction Fund	23,000	......	— 23,000
Other Assets	14,231	5,268	— 8,963
TOTAL ASSETS	$586,071	$827,652	+$241,581
LIABILITIES			
Notes and Accounts Payable	$ 8,833	$ 17,261	+$ 8,428
Accruals	3,742	4,251	+ 509
Accrued Taxes	17,952	31,185	+ 13,233
TOTAL CURRENT LIABILITIES	30,527	52,697	+ 22,170
Depreciation Reserve	72,719	148,810	+ 76,091
Other Reserves	27,603	2,825	— 24,778
Other Liabilities	9,300	5,455	— 3,845
Long Term Debt	238,210	347,400	+ 109,190
Preferred Stock	101,343	72,293	— 29,050
Common Stock	44,827	67,116	+ 22,289
Surplus	61,542	131,056	+ 69,514
TOTAL LIABILITIES	$586,071	$827,652	+$241,581
WORKING CAPITAL	$ 20,471	$ 39,324	+$ 18,853
CURRENT RATIO	1.6	1.8	+ .2



1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	
.65	2.86	2.22	2.24	2.02	2.26	3.08	2.14	2.39	2.16	2.68	• 1.89	EARN.
.40	1.55	1.60	1.60	1.60	1.60	1.60	2.00	2.00	2.00	2.00		DIV.
.7	4.8	4.4	6.4	8.5	9.9	4.9	9.9	d2.9	4.6	d8.6	Wkg Cap $ Mil	



	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	2.37	2.04	2.00	1.84	1.77	1.96	2.43	3.19	3.89	3.52	4.09
DIV.	1.67	1.67	1.33	1.33	1.33	1.38	1.50	1.80	2.00	• 2.00	2.20

GENERAL TELEPHONE CORPORATION

BUSINESS: This is a holding company which, together with its subsidiaries, constitutes the largest independent telephone system in the U. S. outside of the Bell System. Fifteen subsidiary operating companies are controlled, serving 19 states.

OUTLOOK: The company has been a consistent earner ever since reorganization of its predecessor the old Associated Telephone Co., in 1935. In the past decade, earnings averaged about $2.50 a share on the common stock and in the year ended Sept., 1951, the company earned $2.52 a share on the 1,920,400 shares outstanding, contrasted with $2.11 a share on 1,395,000 shares outstanding the year previous. A better indication of the progress in earnings made in the past two years is the fact that consolidated net income was $5.2 million for the year ended last Sept. against $3.4 million for the preceding twelve months. Earnings for the full year ending December 31, 1951, are expected to approximate at least $2.75 a share. In common with the rest of the communications industry, the company has a favorable EPT base, with the exemption at 7%. With wages and the cost of materials rising, the company must depend on securing compensatory increases in rates, in which it has been successful. In the past two years, rate increases of $15 million have been granted; with applications for an additional $3 millon pendng. Of the latter amount, two subsidiaries have been very recently granted increases amounting to $240,000, and it is expected that most if not all of the balance will receive similar treatment at the hands of the Public Utility Commissions involved. The company has been financing its needs principally through successive common stock issues. In July of this year, 300,000 shares were offered at $28⅛ a share.

DIVIDENDS: Payments are being made at the annual rate of $2.20, payable in quarterly installments of 55 cents each. The rate in 1950 was 50 cents quarterly. Substantial earnings coverage indicates the dependable quality of the dividend.

MARKET ACTION: Recent price—29¾ compares with a 1951 range of High—32, Low—27. Indicated yield is slightly above 7%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1941	1950	Change
		(000 omitted)	
ASSETS			
Cash and Cash Items	$ 5,191	$ 7,274	+$ 2,083
Receivables, Net	1,732	9,375	+ 7,643
Materials and Supplies	3,793	15,356	+ 11,563
TOTAL CURRENT ASSETS	10,716	32,005	+ 21,289
Plant and Equipment	102,677	269,688	+ 167,011
Investments	700	1,339	+ 639
Other Assets	4,538	3,574	— 964
TOTAL ASSETS	$118,631	$306,606	+$187,975
LIABILITIES			
Notes and Accounts Payable	$ 1,948	$ 29,604	+$ 27,656
Accruals	1,141	3,992	+ 2,851
Accrued Taxes	2,798	7,049	+ 4,251
TOTAL CURRENT LIABILITIES	5,887	40,645	+ 34,758
Depreciation Reserve	19,180	51,442	+ 32,262
Other Reserves	134	......	— 134
Other Liabilities	2,050	1,253	— 797
Long Term Debt	41,938	112,304	+ 70,366
Preferred Stock	24,484	51,535	+ 27,051
Common Stock	12,741	27,967	+ 15,226
Surplus	12,217	21,460	+ 9,243
TOTAL LIABILITIES	$118,631	$306,606	+$187,975
WORKING CAPITAL	$ 4,829	$(d) 8,640	—$ 13,469
CURRENT RATIO	1.9	......	......

HOUSEHOLD FINANCE CORPORATION

BUSINESS: This is the largest organization engaged in the making of small loans. The company operates 405 branches in the United States and 137 in Canada. Operating under regulatory conditions, its loans are strictly controlled.

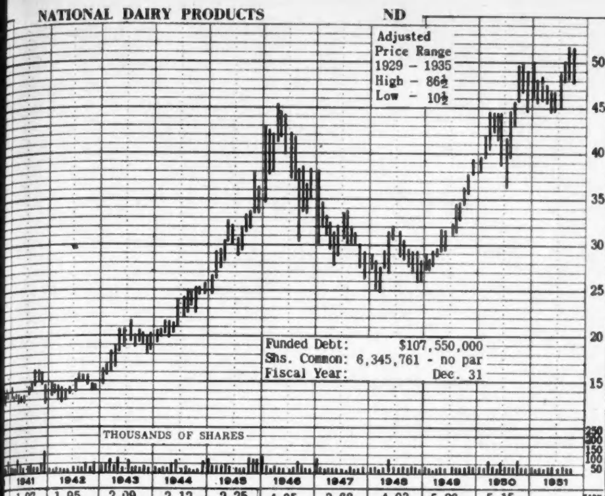
OUTLOOK: The company, dependent mainly on borrowing by wage earners and other low-income groups, apparently is more or less immune to cyclical changes in the economic picture, since small loans are required by these groups when conditions are depressed, and equally when conditions are buoyant, when added credit is then required in order to facilitate purchases of goods on a time-payment basis. Household Finance has consistently shown profits for many years. Since 1948, for example, it has earned an average of $3.68 a share and in 1950, it earned $4.09 a share. With $3.17 a share earned in the first nine months of 1951, it is estimated that the full year's results will be in the neighborhood of $4 a share, or slightly under that shown in 1950. The difference in earnings is accounted for by the rise in both United States and Canadian taxes, with an increase for the first six months alone of $3 million. Government credit restrictions ameliorated somewhat in recent months, have not prevented an increase in outstanding loans which are some 13% above a year ago. Customer notes have risen since the beginning of the year from about $238 million to over $253 million. The average individual loan in recent years has amounted to about $250 which is approximately the present figure, on which the average unpaid note amounts to $210. Since the total number of individual loans remains at a high figure, increasing slowly from year to year, the large volume of unpaid loans represents a steady source of income, rising progressively. The only unfavorable feature, common to most companies, is the increasing tax burden. The superior quality of the management is indicated by the excellent long-term record of earnings and stability of dividends.

DIVIDENDS: Payments are at the annual rate of $2.40 a share, payable quarterly. This represents an increase over last year when $2.20 a share was paid. Coverage for the dividend is substantial.

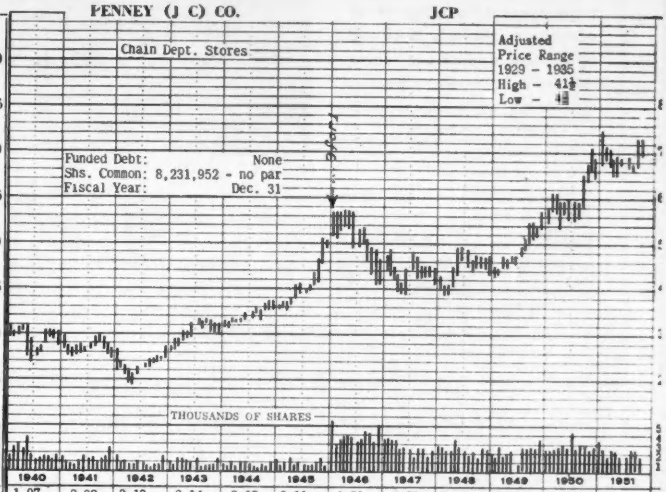
MARKET ACTION: Recent price—40¾ compares favorably with a 1951 range of High—41½, Low—30½. Indicated yield is slightly over 5.8%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1941	June 30 1951	Change
		(000 omitted)	
ASSETS			
Cash	$ 8,314	$ 18,304	+$ 9,990
Marketable Securities	......	3,352	+ 3,352
Investments	......	1,680	+ 1,680
Installment Notes Receivable	80,059	230,879	+ 150,820
Other Receivables, Net	059	012	— 047
Office Equipment	676	2,479	+ 1,803
Other Assets	......	1,296	+ 1,296
TOTAL ASSETS	$ 89,108	$258,002	+$168,894
LIABILITIES			
Accrued Taxes	$ 4,446	$ 10,295	+$ 5,849
Accruals & Other Liabilities	1,542	3,688	+ 2,146
Notes Payable to Banks	19,427	82,260	+ 62,833
Long Term Debt	14,500	79,273	+ 64,773
Reserves	751	2,689	+ 1,938
Preferred Stock	18,000	20,000	+ 2,000
Common Stock	18,260	33,211	+ 14,951
Surplus	12,182	26,586	+ 14,404
TOTAL LIABILITIES	$ 89,108	$258,002	+$168,894



	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
EARN.	1.97	1.95	2.09	2.12	2.25	4.05	3.68	4.03	5.26	5.15	
DIV.	.80	.80	1.00	1.10	1.40	1.65	1.80	1.80	2.20	2.80	
Wkg Cap $ Mil	50.0	65.1	77.0	83.9	90.4	97.9	90.2	116.0	124.0	123.1	



	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
EARN.	1.97	2.08	2.19	2.14	2.08	2.11	4.31	4.29	5.80	5.08	5.46	
DIV.	1.66⅔	1.66⅔	1.66⅔	1.66⅔	1.66⅔	1.66⅔	2.70	1.50	2.50	2.50	3.00	
Wkg Cap $ Mil	67.5	69.7	70.7	73.3	73.0	85.1	95.5	103.3	125.1	139.1	154.9	

NATIONAL DAIRY PRODUCTS CORPORATION

BUSINESS: The company, the largest of its kind in the field, deals in miscellaneous dairy products and their derivatives. It operates principally in the eastern part of the country, but also in the South and Mid-west.

OUTLOOK: Since incorporation in 1923, National Dairy has operated profitably in every year and, in fact, has paid dividends continuously throughout that period. The leader in its field, the company has kept pace with important technological developments, and its expansion into chemical and industrial products is a significent step. Though its operation in the field of dairy products is basic, profit margins have been widened through expansion in manufactured items. The introduction of new food items, which is typical of the more advanced dairy product companies, is a feature of National Dairy Products' activities. Sales this year will be over $1 billion, a record. In 1950, sales amounted to $906 million. Earnings were $5.15 a share in 1950 and $5.27 a share in 1949. For the current year, it is estimated that earnings will amount to between $4.50 and $4.75 a share. The decline in net income is accounted for principally by the great increase in income taxes. For example, taxes for the first half were computed by the company to be $10.3 million higher than for the same period last year. This alone was equivalent to about $1.60 a share on the common stock. Working capital position is strong, having increased from about $90 million at the end of the war to currently over $124 million. Foreign subsidiary returns which are excluded from the company's consolidated report, amounted last year to about 25 cents a share; of which approximately 10 cents a share was credited to income. Fundamentals in the dairy products industry indicate great stability with costs under severe control—aside from taxes—and variations in the cost of the raw product closely geared to selling prices. Thus the future of earnings, buttressed by expansion in manufactured products, seems assured.

DIVIDENDS: The company has recently increased the dividend to 75 cents quarterly on a regular basis, or at an annual $3 rate, against $2.80 paid last year, including extras. Even after the tax bite, earnings cover dividends by a wide margin.

MARKET ACTION: Recent price—48 compares with a 1951 range of High—51¾, Low——44½. The indicated yield is 6¼%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1941	1950	Change
ASSETS		(000 omitted)	
Cash and Marketable Securities	$ 15,016	$ 38,836	+$ 23,820
Notes and Receivables, Net	27,213	38,669	+ 11,456
Inventories	55,338	94,434	+ 39,096
TOTAL CURRENT ASSETS	97,567	171,939	+ 74,372
Net Property	100,575	160,050	+ 59,475
Investments & Deposits	8,540	6,147	— 2,393
Goodwill Purchased	22,060	......	— 22,060
Other Assets	2,448	5,305	+ 2,857
TOTAL ASSETS	$231,190	$343,441	+$112,251
LIABILITIES			
Notes & Debentures Payable	$ 14,975	$	—$ 14,975
Accounts Payable	16,659	47,164	+ 30,505
Accruals	4,487	......	— 4,487
Accrued Taxes	11,389	......	— 11,389
TOTAL CURRENT LIABILITIES	47,510	47,164	— 346
Reserves	7,602	11,145	+ 3,543
Other Liabilities	349	337	— 012
Long Term Debt	66,450	79,400	+ 12,950
Common Stock	51,267	53,444	+ 2,177
Surplus	58,012	151,951	+ 93,939
TOTAL LIABILITIES	$231,190	$343,441	+$112,251
WORKING CAPITAL	$ 50,057	$124,775	+$ 74,718
CURRENT RATIO	2.1	3.6	+ 1.5

J. C. PENNEY COMPANY

BUSINESS: The J. C. Penney stores, known colloquially as the "poor man's department store" operates in all the 48 states of the union, and specializes in clothing and all kinds of other wearing apparel.

OUTLOOK: The company operates 1618 stores with sales close to $1 billion in 1950 which should be considerably exceeded in 1951. For the first nine months, sales increased 10.3%. The company is extremely active in the supervision of its stores, not hesitating to close down those which in its estimation have reached the limits of growth. Thus last year, while eleven new stores were opened up, six were closed. Stores are generally located in the best shopping centers of the respective communities. Catering mainly to the lower-income groups, the company is dependent on large-scale consumer buying, but since it deals in necessities is less subject to fluctuations in public buying. The company maintains a characteristically strong financial position, in line with its extensive inventory requirements. Net current assets are about $163 million, on a par with the amount of merchandise on the shelves or in warehouses. Costs are determined on the FIFO basis. Retained earnings over the years have totalled over $155 million, the company pursuing a careful dividend policy which while satisfactory to stockholders, nevertheless leaves a substantial margin for corporate purposes. Earnings last year amounted to $5.46 a share but will probably decline this year to around $5 a share, owing to increased tax payments. The company, almost a half century old, has grown enormously and its management is considered excellent. The common stock, which has no bonds or preferred stock ahead of it, is considered a conservative holding.

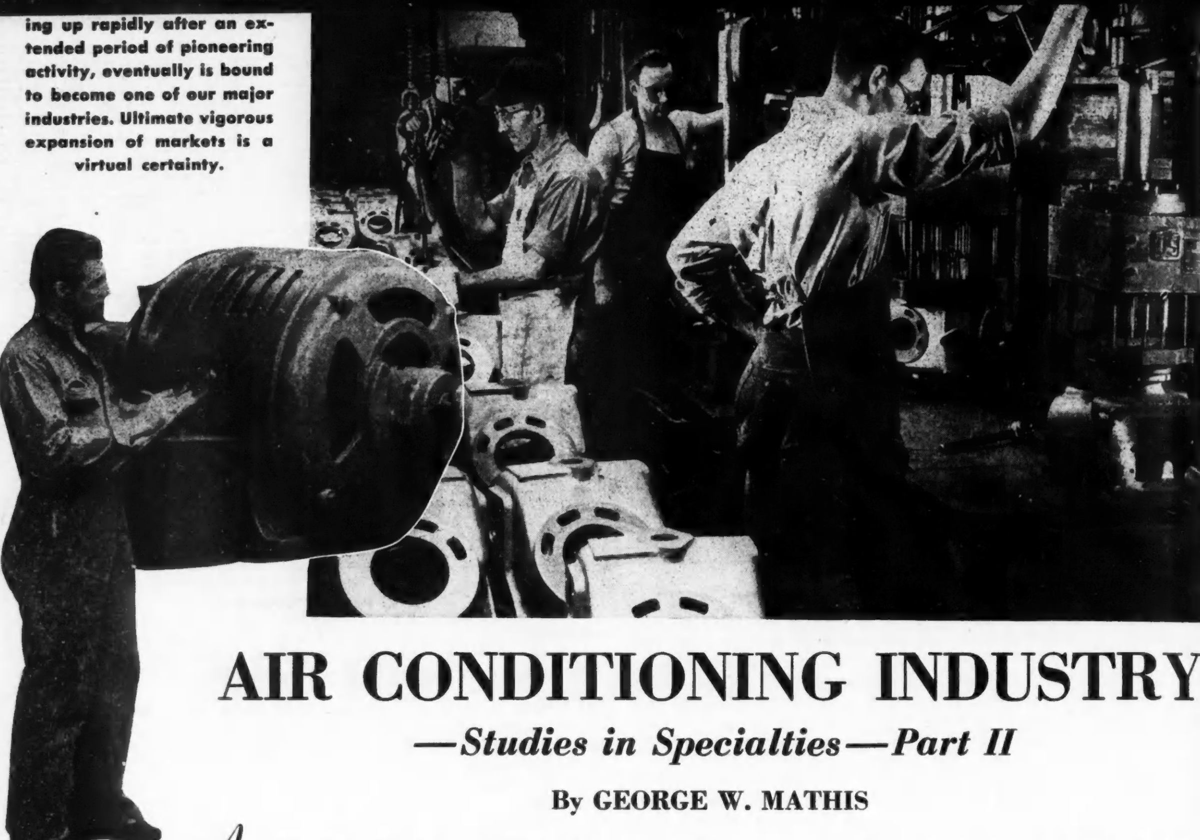
DIVIDENDS: The company is paying dividends at the annual rate of $3.50 a share, including extras. Based on indicated 1951 earnings, coverage is quite ample.

MARKET ACTION: Recent price—69¾ compares with a 1951 range of High 74½, Low—64½. The indicated yield is 5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1941	June 30 1951	Change
ASSETS		(000 omitted)	
Cash & Marketable Securities	$ 25,510	$ 51,504	+$ 25,994
Receivables, Net	737	1,496	+ 759
Inventory	81,650	212,692	+ 131,042
TOTAL CURRENT ASSETS	107,897	265,692	+ 157,795
Net Property	18,475	30,943	+ 12,468
Investments	......	7,226	+ 7,226
Other Assets	864	2,138	+ 1,274
TOTAL ASSETS	$127,236	$305,999	+$178,763
LIABILITIES			
Accounts Payable	$ 16,184	$ 62,452	+$ 46,268
Accruals	1,575	4,116	+ 2,541
Accrued Taxes	20,369	36,111	+ 15,742
TOTAL CURRENT LIABILITIES	38,128	102,679	+ 64,551
Reserves	2,472	2,811	+ 339
Common Stock	33,823	34,123	+ 300
Surplus	52,813	166,386	+ 113,573
TOTAL LIABILITIES	$127,236	$305,999	+$178,763
WORKING CAPITAL	$ 69,769	$163,013	+$ 93,244
CURRENT RATIO	2.8	2.6	— .2

ing up rapidly after an extended period of pioneering activity, eventually is bound to become one of our major industries. Ultimate vigorous expansion of markets is a virtual certainty.



AIR CONDITIONING INDUSTRY

—Studies in Specialties—Part II

By GEORGE W. MATHIS

Air conditioning is coming of age. No longer is it regarded as an extravagant luxury. In industrial plants and in many other commercial applications it has become a necessity, while in residential use it has furnished a welcome convenience. Demand now is approaching a level that promises to encourage production at a volume sufficient to contribute important manufacturing economies. Already this trend has lowered the cost of small room air conditioners to the point where the vast majority of home owners can afford such an installation.

Two factors have contributed to rapid strides of air conditioning in industrial plants: (1) The need for increasing employee efficiency as a means of counteracting rising labor costs and (2) the desire to reduce absenteeism as well as labor turnover. Personnel managers have come to recognize the importance of providing comfortable and attractive working conditions as vital aspects of a well rounded program aimed at making workers contented in their jobs. Air conditioning plays an important part in holding workers in plants now that the old fashioned idea of perfect attendance records in earning a living has virtually disappeared.

Air conditioning has become increasingly important as a means of attracting patronage in retail stores, in restaurants, in theatres and in other lines of business activity where the comfort of customers is essential. Theatre owners learned many years ago that the best method of sustaining box office receipts in the summer was to provide temperatures comparable with those to be found at the seashore or at other resorts. Merchants also have learned that cool stores are conducive to improved sales results in the summer months, since many shoppers are induced to enter air conditioned stores to cool off on hot summer days who otherwise would not have bothered to become potential customers. In like manner, air conditioning has become virtually a necessity with better class restaurants and with hotels in many parts of the South.

Since installation of air conditioning equipment is comparatively simple, and therefore relatively inexpensive, at the time a building is constructed, almost every industrial plant of any size makes provision for cooling systems when being built nowadays. This is especially true in construction projects involving employment of large numbers of workers and in cases where weather conditions are likely to affect production processes. Thus the extensive armament program involving much new plant construction is contributing to a boom in air conditionig sales.

Growth Possibilities in Small Units

Because installations of air conditioning equipment, including large air ducts, water pipes, condensers, motors, etc., frequently present difficult engineering problems in older buildings, costs often are prohibitive under such conditions. Thus many hotels, office buildings and even industrial plants constructed twenty or twenty-five years ago are unable to put in satisfactory cooling systems because reconstruction jobs would prove too costly. Many hotels have resorted to installation of room conditioners, however, including those which may be installed on window sills. Apartment dwellers in large cities also find these small units especially suitable for bedrooms. Inasmuch as installations involve virtually no changes in building construction, growth potentialities are promising in this field.

Progress in development of cooling systems that

operate in conjunction with heating equipment also offers interesting possibilities—especially in warm climates. Essentially, of course, air conditioning includes heating as well as cooling. Hence, it is only natural for engineers to come up with a system that provides warm air in the winter and cool air in the summer.

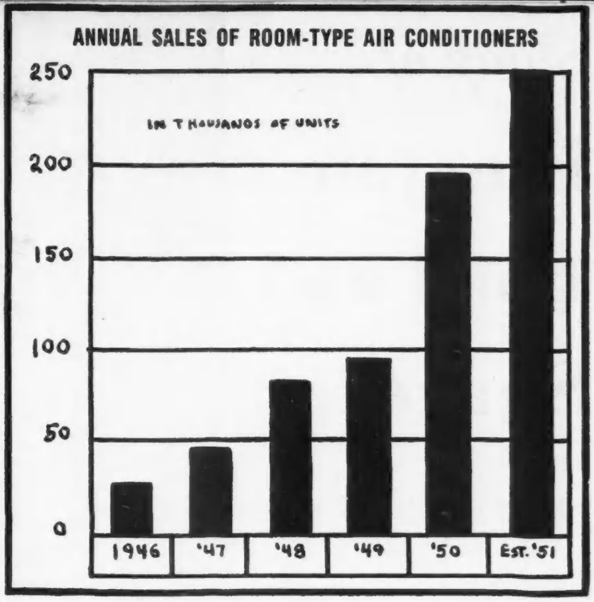
Such equipment may be readily installed at the time a home is built and it has been demonstrated to be especially suitable for small residences using warm air furnaces rather than steam heat through radiators. The additional cost of air conditioning under such arrangements is so small that manufacturers are confident of developing large markets for combination heating and air conditioning installations.

Air Conditioning in Warm Climates

Of course, the comparatively short summer in the populous northern and northeastern climate of this country is a factor that limits the demand for air conditioners in the homes. However, thoughout the South and in most sections on the western half of the country, there is a growing interest in moderately priced equipment that will make living conditions more bearable. Many homes have installed large fans that afford temporary relief on hot nights, but they are less satisfactory than efficient room coolers.

With living standards rising significantly in the South and in other warm climates, it appears reasonable to expect rapid development of markets for residential installations. This view is supported by recent decisions of Radio Corporation of America and the Crosley division of Avco Manufacturing Corporation to enter into arrangements for marketing small air conditioning units maufactured by Fedders-Quigan Corporation. These two nationally known distributors of home appliances apparently feel that prospects for development of substantial sales are interesting.

Although sales of air conditioning equipment account for only a small proportion of volume in the building supply industry, this new outlet is becoming increasingly important for a larger number of manufacturers. Heavy apparatus required for industrial plants and for most commercial installations in offices, retail stores, restaurants, etc., is manufactured by companies such as General Motors, General Electric, Chrysler, Westinghouse Electric, Carrier Corporation, York Corporation and Buffalo Forge. Smaller units are produced by Fedders-Quigan, Philco and others, while numerous companies, including Borg-Warner, Servel, Holland Furnace and American Radiator & Standard Sanitary, make important components for equipment completed and installed by others.



It is apparent that air conditioning represents only an insignificant part of total output of the larger companies mentioned here. Hence, it is not yet "big business" so far as dollar volume is concerned, but because much of the equipment utilized in air conditioning installations is similar in character to other production, these companies are especially qualified to maintain a position in the industry. Engineering surveys are required in connection with installations, and customers have learned to turn to major companies for such services.

As evidence of the importance attached to air conditioning in the homes, American Radiator & Standard Sanitary has announced its intention of invading the market in vigorous fashion. As a long-time leader in manufacturing heating equipment, the company is fitted to offer a combination warm air furnace and cooling system. Development of low-cost equipment, bringing these facilities within the means of the average home owner, has opened a vast new field—especially in smaller homes adaptable to the warm air furnace. (*Continued on page* 204)

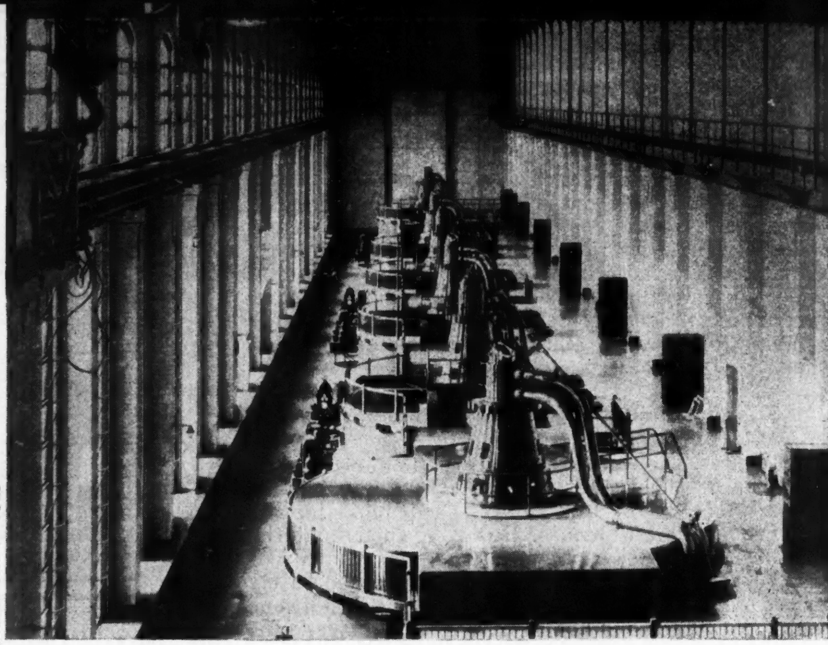
Statistical Data on Leading Air Conditioning Companies

	Interim 1951			1950							
	Net Sales (Millions)	Net Margin	Net Per Share	Net Sales (Millions)	Net Margin	Net Per Share	Recent Price	1951 Div.*	Div. Yield	Price Earnings Ratio†	Price Range 1950-51
Carrier Corp.	$70.9[7]	4.3%	$ 3.29[7]	$62.3[1]	5.1%	$ 4.54[1]	22½	$ 1.00[6]	4.4%	4.9	25¼-14⅛
Fedders-Quigan Corp.	25.5[3]	5.0	1.02[3]	33.6	5.8	1.60	13¼	1.10	8.3	8.2	29⅞-11½
Trane Co.	26.6[4]	5.9	1.5[4]	27.6	7.4	6.87	46¾	2.50[6]	5.3	6.8	52 -24½
U. S. Air Conditioning Corp.	3.5[8]	....	......	3.8[1]	2.6	.11[1]	1½	......	....	13.6	2⅝- 1⅛
York Corp.	45.7[5]	4.9	2.14[5]	49.0[2]	4.3	1.91[2]	12⅞	.875	6.9	6.7	17⅝- 9¼

*—Indicated or estimated.
†—Based on 1950 earnings.
1—Year ended October 31, 1950.
2—Year ended September 30, 1950.
3—8 months ended August 31, 1951.
4—9 months ended September 30, 1951.
5—9 months ended June 30, 1951.
6—Plus stock.
7—12 months ended July 31, 1951.
8—9 months ended July 31, 1951.

Study of . . .

Electric Bond and Share



By EDWIN A. BARNES

Electric Bond and Share was originally incorporated in 1905, but had its major growth in the 1920s. The 1930 balance sheet showed total assets of over a billion dollars, and had a consolidated statement been published, including the various subholding company systems, the total would have been several times as large. The company was in effect a "super" holding company, with effective control over five big holding companies—American & Foreign Power, American Gas & Electric (which later became an independent system), American Power & Light, National Power & Light and Electric Power & Light.

However, the company claimed real control of American & Foreign Power only, its stakes in the other systems being "substantial minority interests". In 1930 the company also had a miscellaneous portfolio of utility and industrial stocks worth about $78 million, but these were gradually disposed of in later years.

Electric Bond and Share has always emphasized the "service" feature of its set-up. An important subsidiary, Ebasco Services Inc., has for years rendered accounting, engineering and financial services to affiliated and other utility companies, and in recent years the activities of Ebasco have been greatly enlarged.

Under the program of holding company integration and dissolution carried out by the Securities & Exchange Commission under the Public Utility Holding Company Act of 1935, a very substantial amount of EBS' holdings have had to be liquidated or distributed. Electric Power & Light has disappeared and National Power & Light, with its assets reduced to a small amount of cash, is becoming an industrial investment company. American Power & Light has liquidated all its important holdings except Washington Water Power. Some subsidiary stocks obtained in the break-up of these systems have been distributed by Electric Bond and Share as dividends (in lieu of cash) in recent years, and some others were sold; a few remain to be disposed of.

The company now has three major holdings: Various security holdings giving control of American & Foreign Power; 3,165,781 shares of United Gas Corp. (about 27%); and the entire equity in Ebasco Services. Remnants of its former holding company interests are about as follows: American Power & Light, 183,050 shares; Atlantic City Electric, 2,631 shares; Carolina Power & Light, 9,204 shares; Montana Power, 138,708 shares; Southern Co., 381,067 shares. A dividend of 2.2 shares of Montana Power for each 100 shares of EBS will be paid Dec. 14 to holders of record Nov. 9, leaving 13,200 shares in the treasury.

As the result of the gradual liquidation of various holdings, the company has been able to make substantial advances to American & Foreign Power, and also retire its own senior obligations—bank loans and preferred stocks. A final payment of about $10 million on the $6 preferred stock "stubs" was made under court order last June. The company now has net current assets of some $12 million. Eventual sale of some remaining stocks (other than the three

Income Projection With or Without United Gas

EST. DIVIDEND INCOME	If United Gas Retained	If United Gas Is Disposed of
American & Foreign Power (new)	$3,720	$3,720
United Gas	3,165	....
Ebasco Services	1,500	1,500
New Investment ($20,000,000 at 6%)	1,200	1,200
Total Dividend Income	$9,585	$6,420
Expenses	750	760
Est. Income Taxes	671*	448*
Net Income	$8,164	$5,222
Per Share	$1.54	$1.00

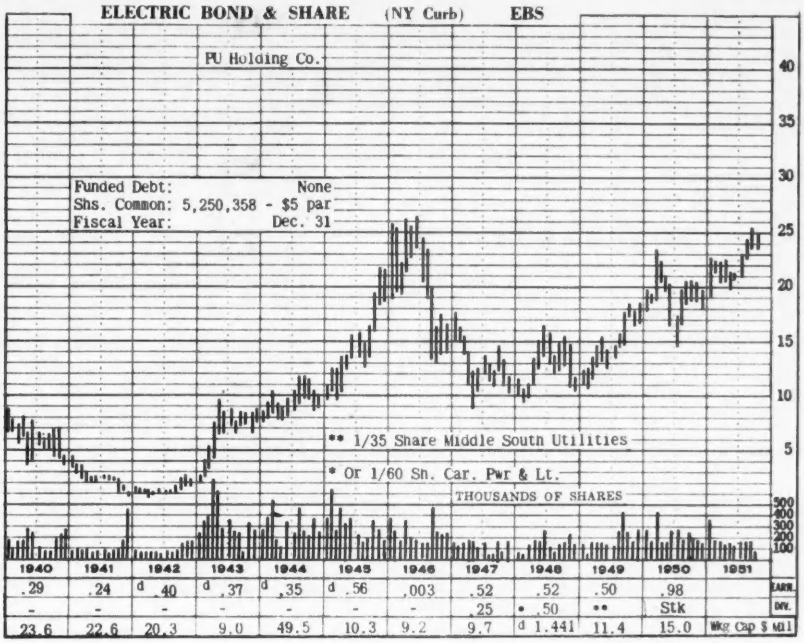
*Based on 52% normal and surtax rate, and excluding tax benefits of consolidation with Ebasco.

major interests) should bring cash assets up to about $20 million, it is estimated.

American & Foreign Power is over-capitalized, as a result of the high prices paid for certain properties in the 1920s, cumulative losses due to the shrinkage of foreign exchange values in Latin America, etc. Some years ago, the company was ordered by the SEC to recapitalize. An earlier plan was approved by the SEC in 1947 and by a District Court in 1948, but could not be consummated because plans for refunding the Debenture 5s could not be effected.

A new plan was filed in January of this year but final agreement between various classes of security holders was not reached until August, at which time minor changes in the plan were announced. This agreement obviated the necessity for further hearings, filing of briefs, etc., and an early SEC decision approving the plan is now expected. This must also be approved by a Federal Court, but the company has been optimistic that (in the absence of any substantial opposition to the plan), such approval can be quickly obtained and the plan actually consummated by the end of the year. Accordingly, the company has been preparing for the various exchanges of securities. However, it now appears a little doubtful whether the entire procedure can be carried through as expeditiously as this.

Under the revised plan, Electric Bond and Share will receive 55.7% of the new common stock of American & Foreign Power or about 3,720,000 shares—equivalent to about .71 share for each share of its own outstanding. This new common stock is expected to earn around $2.25-$2.50, and on this basis EBS' interest in the earnings would approximate $1.60-$1.77 on its own shares. It has been estimated that, on the basis of such earning power and with a normal flow of cash from Latin America to New York, dividends of $1 per annum might be paid on American & Foreign's new stock, which would be equivalent to about 70¢ on EBS stock.



Electric Bond & Share has been anxious to retain its large interest in United Gas Corp. which it obtained in the break-up of Electric Power & Light. However, the SEC has considered it necessary to explore this question at great length. On November 15, 1950, the SEC staff found "without merit" the contention of the company that it be allowed to become an exempt holding company, and recommended that the Commission order the company to dispose of its entire holdings in United Gas Corp. However, the Commission has not yet rendered any final decision in the matter, and it appears likely that if it orders disposal of the stock, EBS may take the matter to the courts.

While Electric Bond and Share does not expect to "break up", it may be of interest to appraise the value of its holdings, (*Please turn to page* 199)

Long Term Earnings and Assets Record

	Interest Received	Dividends Received	Gross Income (Millions)	Expenses and Taxes	Net Income	Net Ner Share	Div. Per Share	Price Range 1941-50	Total Assets (Millions)	Net Current Assets
1951 (1st 6 months)	......	......	$ 3.7	$ .6	$ 3.1	$ .59	$ [4]	[5]25¼-19⅛	$156.3[6]	$12.4[6]
1950	$ 1.8	$ 5.0	6.9	1.7	5.1	.98	[1]	23¼-14½	166.3	15.0
1949	2.0	2.2	4.3	1.6	2.6	.50	[2]	18⅝-10¾	171.8	11.4
1948	2.0	2.3	4.4	1.6	2.7	.53	[3]	16⅜- 9¼	110.8	(d) 1.4
1947	2.0	2.8	4.9	1.8	3.0	.52	.25	17⅝- 8⅞	122.6	9.7
1946	2.0	3.8	5.8	1.6	4.2	.003	......	26¾-13	180.9	9.2
1945	1.9	2.1	4.3	1.5	2.7	(d) .56	......	21⅞- 9½	459.9	10.3
1944	5.0	2.2	7.4	2.8	4.6	(d) .35	......	11⅞- 7¾	500.6	49.5
1943	6.7	2.1	8.9	3.4	5.4	(d) .37	......	9½- 2	537.2	9.0
1942	7.0	1.9	9.1	3.4	5.6	(d) .40	......	2½- ⅞	550.5	20.3
1941	7.1	4.0	11.2	1.6	9.5	.24	......	4⅜- ¾	552.7	22.6
10 Year Average 1941-1950	$ 3.7	$ 2.8	$ 6.7	$ 2.1	$ 4.5	$ .27	......	26¾- ¾	$335.3	$15.7

(d)—Deficit.
[1]—3¾ shares of Texas Utilities for each 100 shares held.
[2]—1/35 of a share of Middle South Utilities for each share held.
[3]—1 share of Carolina Power & Light for each 60 shares held.
[4]—Paid to December 14th; 2.2 shares of Florida Power & Light & 2.2 shares of Montana Power Co., for each 100 shares held.
[5]—To November 1, 1951.
[6]—As of June 30, 1951.

FOR PROFIT AND INCOME

Coincidence?

There have been 13 completed bear markets in the last half century. Seven of them started in the autumn season; and 11 out of 13 either started in or reached a violent recognizable stage in this season. November has been the favorite month for bear-market starts, with 4 instances out of 13. September is next with 3 instances, followed by March with 2. Over the whole period to date, no bear-market start — which is to say bull-market peak—has been made in February, July, August, October or December. Well, there can always be a first time, and the October high for the 1949-1951 uptrend (in terms of most indexes but not "the Dow") might conceivably prove to be one, although it remains to be seen. We are not overly impressed by the fact that autumn has been so frequently the time for bear markets to start or really get mean. It is something like the old non sequitur relating to the alleged size of policemen's feet. Nevertheless, this past tendency, plus the scope and duration of the 1949-1951 rise, plus earnings-divided shrinkage under higher taxes, plus the ease with which stock prices faded under no very heavy volume of selling on the October 16-27 slide, must give one pause.

Groups

On the first sizable rebound from the market's sharp October 16-27 sell-off, stocks of crude oil producing companies, as a group, went above their previous best level to another new all-time high; while the rest of the oil group rallied to within about 3% of its previous all-time high. The market is sensitive to earnings news, bad or good—and oil earnings, due to the industry's tax-sheltered position, continue to show year-to-year gains. As long as that is so. oils probably are going to be well bought on moderate price recessions. The general reaction having been stemmed so far well above the June lows, relatively few stock groups have sagged to new 1951 lows during the two weeks or so up to this writing. They include beer brewers, carpet stocks, canned foods, flour millers and food chains. The last three of these had long been in a rather narrow range, requiring little movement to dip to new lows.

Stocks

A break of 3.74 points in the industrial average on Saturday, October 27, extended the total decline from its September 13 high to 17.84 points. Yet in that session, while a good many stocks sagged to new 1951 lows, a few reached new highs. Stocks which "buck the trend" have at least interest, if not merit in some cases. In this instance they were Central & South West (a utility), Middle States Utilities, Cerro de Pasco (immune to U. S. taxes), St. Joseph Light & Power, and Texas Pacific Land Trust. In subsequent sessions of rally, stocks reaching new highs for 1951 or longer included: Amerada Petroleum, Sun Oil, Standard Oil (New Jersey), Johns Manville, Kern County Land, U. S. Smelting, Andes Copper, Cleveland Electric, Wisconsin Electric, Commercial Credit, Howe Sound, and Potomac Electric.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1951	1950
United Paramount Theatres	Sept. 30 Quar.	$1.41	$ .95
Worthington Pump	9 mos. Sept. 30	4.11	3.76
Howe Sound	Sept. 30 Quar.	2.83	1.37
Rexall Drug	9 mos. Sept. 30	.35	.19
Stewart-Warner Corp.	9 mos. Sept. 30	2.37	2.35
Socony-Vacuum Oil	9 mos. Sept. 30	3.74	2.61
Commercial Solvents	9 mos. Sept. 30	1.69	1.07
Norfolk & Western Ry.	9 mos. Sept. 30	3.59	3.17
Remington-Rand, Inc.	Sept. 30 Quar.	.74	.71
Reynolds Metals Co.	9 mos. Sept. 30	8.31	4.60

Textiles

Despite the high level of consumer income, the textile business remains in a slump. The reason, of course, is the extended period of over-production and over-stocking by wholesale and retail distributors beginning last year and running well into the second quarter of this year. A good many textile manufacturing concerns are heavily "in hock" to the banks. Probably there is some trade revival ahead; but it may be at least several months distant and its possible vigor is open to question. Meanwhile, some dividend cuts here and there would not be surprising. Even though the stocks are down considerably from their highs, it is doubtful that they have discounted the coming poor fourth-quarter earnings reports. This column would be inclined to switch out of most issues, especially the more speculative, in the cotton-goods and woolen-goods divisions; and to defer any new purchases of rayon stocks, since there is a good chance that they can be had at appreciably lower levels.

Steels

Brokers and others "tooted the horn" for steel stocks on the June-October rise on the reasoning that they were moderately priced on probable reduced 1951 and 1952 earnings; and on the theory that steels ought to get their typical late bulge in a speculative blow-off phase of the bull market, along with other traditional late movers, such as rails, rail equipments and "cat and dog" industrials generally. The horn tooters have been disappointed, their customers more so. Steels made their last major high as far back as last February, seven months in advance of the 1951 high in the industrial average. If these prove to be cyclical tops, it will be the first time that the steel group has topped out a significant distance ahead of the market. It might be argued that this implies that the major top, to be made on a speculative blow-off, is still ahead. This column would not risk going on such an assumption. This is a different kind of a market—more of a selective investment market than ever before. For that reason, as we have pointed out before, the cycle could readily top out rather quietly, with no particular fireworks in speculative late-movers—and it may have done so. There is surely no basis for an optimistic *investment* appraisal of the steel industry. Its operating costs are advancing, its prices frozen. Its best earnings for the entire period of the defense build-up have been put behind. And it faces a post-defense threat of considerable over-capacity.

Cats and Dogs

The 1949-1951 rise took the broad level of industrial stock prices (adjusted for splits and stock dividends) slightly above the 1929 high. On average, however, the general run of speculative low-priced stocks, at best 1951 prices to date, remained far under their 1928, 1929 and 1946 highs; and only moderately above their 1937 high. In ratio to the industrial list—assuming the tops have been seen—they have topped out at a much lower level than in any past bull market of our time, including the 1937 top. Probably the reasons are much the same as those cited in the case of steels. To wit: it just has not been the kind of speculative market in which cats and dogs could "go to town"; and the odds are not good that they will do so later, after completion of what the bulls still hope is merely an "intermediate correction" in an unfinished uptrend. If that theory is wrong, cat-and-dog stocks will in due time decline largely from present prices; for, if the level is less extreme than it has been around past bull-market highs, it is nevertheless very far from depressed. To put it emphatically, this column sees no percentage in holding on to low-quality, highly speculative stocks; and that is so whether they are in the low-price class or above it in price range.

What To Do

If this general reasoning is correct, what sort of stocks should you hold? The writer would put heavy emphasis on stable income consumption-goods stocks in general, plus some tax-sheltered oils. He would not argue for sale of good-grade growth stocks, if your reserves in cash or equivalent are 40% or more of total funds invested or available for investment, and thus in line with our previous advices. But holders of favored growth stocks should be under no illusion that they will stand up through any important market decline. They will not. They are subject to rather broad cyclical declines, even if less than average. They have had exceptionally large advances in this cycle, even allowing for their recent sharp sell-off.

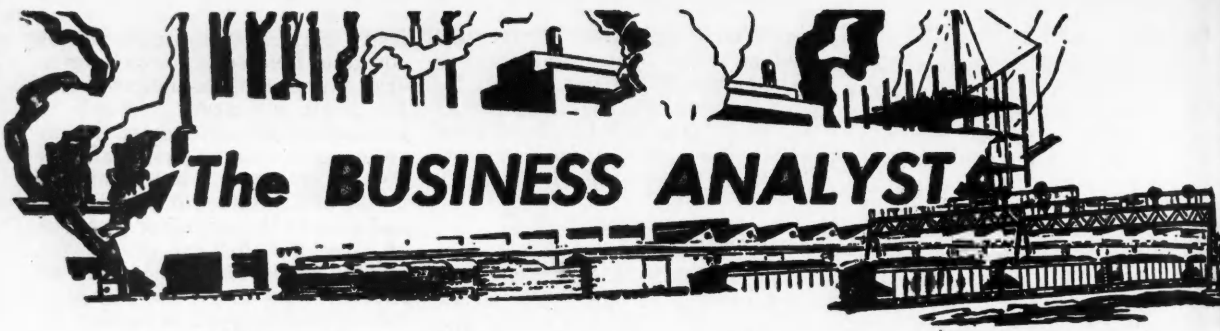
Bonds

What are you going to do with cash on which income return is needed? You can, of course, get a 2% return on savings deposits; and larger funds will be sufficiently liquid, at a 2% yield, in short term Treasury 2s, maturing Dec. 15, 1954-1952. Moreover, new issues of high-grade corporate bonds are now being issued at yields of 3½% to 3¾% in many cases, against well under 3% not so long ago. They are subject to moderate interim fluctuation—far less than that of most common stocks — and foreseeable credit supply-demand factors, barring global war, point to higher bond prices after the stimulus of the arms program has passed its peak. Regardless of official talk about more inflation in 1952, and of long-run inflationary possibilities, good new-issue corporate bonds have merit for the deflation-hedge portion of security investments on a perspective of perhaps one to two years or more, offer the highest yields in some years, and probably can be sold for at least a modest profit under the very kind of conditions calculated to put com-

(*Please turn to page* 201)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

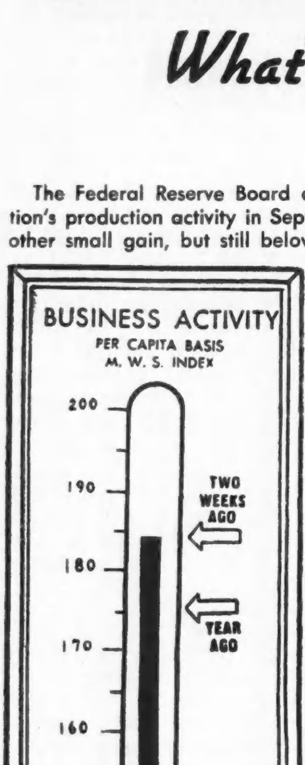
		1951	1950
Allegheny Ludlum Steel	Sept. 30 Quar.	$1.36	$2.14
American Chicle	Sept. 30 Quar.	.78	1.00
General Foods Corp.	Sept. 30 Quar.	.77	1.74
Thompson Products, Inc.	9 mos. Sept. 30	4.53	5.20
Union Carbide & Carbon	Sept. 30 Quar.	.81	1.34
Pittsburgh Consolidated Coal	Sept. 30 Quar.	1.30	1.96
Westinghouse Air Brake	Sept. 30 Quar.	.59	.76
Penn-Dixie Cement Corp.	Sept. 30 Quar.	1.33	2.13
Penna. Salt Mfg. Co.	Sept. 30 Quar.	.66	1.23
International Bus. Machines	9 mos. Sept. 30	6.92	8.09



What's Ahead for Business?

By E. K. A.

The Federal Reserve Board added up its data on the nation's production activity in September and came up with another small gain, but still below the level of last Spring. Its industrial production index averaged 219% of 1935-39 output and is expected to stay near that level in October. This compares with the year's peak of 223% last April, and with 217% in August 1950. Rising production is noted mostly in arms industries and plants that contribute to defense. Consumer goods industries are not picking up much, partly because of restrictions on output as in autos and appliances, and partly because of dragging demand as in textiles. On the whole, the Board finds that lag in consumer goods production results from lower demand rather than any shortage of materials. That of course is already well known. But it also shows how arms output props up general business activity.



Surveying general business trends in October, the National Association of Purchasing Agents reports that the slight improvement which developed in September is being maintained. Where necessary, production is being adjusted to lower demand, but is still higher than warranted by the order position of many plants. The demand for holiday goods has picked up somewhat, but not to the normal seasonal volume, and much of it can be filled from stocks. But defense production is growing. The Association's concensus is, however, that there must be more defense business, and a wider spread of it, if hardships in some regions are to be avoided.

In summary, the business news still indicates an approximate state of balance between inflationary and deflationary forces, with little to suggest that either will gain preponderance in the early future. What has come to be called the "lull" continues to persist. Distributors and processors of consumers' goods are trying to work off their inventories, and that means reduced commitments all along the line. Retail sales, while latterly somewhat improved, still holds to the pattern of the past six months during which, after allowing for seasonal variations, they have fluctuated narrowly around a level some 10% below the January-February figures. On the other hand, record expenditures for plant and equipment and growing arms outlays sustain employment and keep up the flow of purchasing power. Without defense business, the economy doubtless would be in a trough.

The big question now is how the inflationary and deflationary forces now existing will balance out in the future, what's ahead for business in the first quarter of next year. As to the former, and barring unexpected and unforeseen developments, there is good reason to believe that the present balance will be more or less maintained in the coming months, despite mounting defense spending. As to the prospective trend of business, much will depend on (1) holiday buying and how it will affect the movement of finished goods; (2) the actual first quarter allocations of controlled materials for civilian use, and therefore the production potential in affected lines; and (3) the rate at which defense orders can be brought into production in coming months.

Just how production of consumer durables has been hit by the drop in demand is illustrated by the Federal Reserve Board's newly constructed production index for this field. The combined index (1947-49 = 100) dropped from 160 in March (this year's high) to 101 in August, latest available figure, and that's a decline of about 37%. For household goods, the drop from the 1950 peak was 45%, for Radio and TV, it was 70%. Major appliance production fell 44% from the peak recorded in July 1950, and automobile production was down 38% from the peak it established in June last year. Future trends will bear watching, in view of the importance of this sector to the economy as a whole.

Seasonal influences, but particularly also "beat-the-tax" shopping, have been responsible for a moderate upturn in retail trade of late, but the improvement is still nothing to shout about. As far as beat-the-tax buying is concerned, it is largely business borrowed from future sales. Fortunately the volume is not regarded to have been big enough to signify any marked setback later on, except perhaps in liquor sales. And the crescendo of Christmas buying is still to come. But retailers keep their fingers crossed regarding its tempo as well as its bulk.

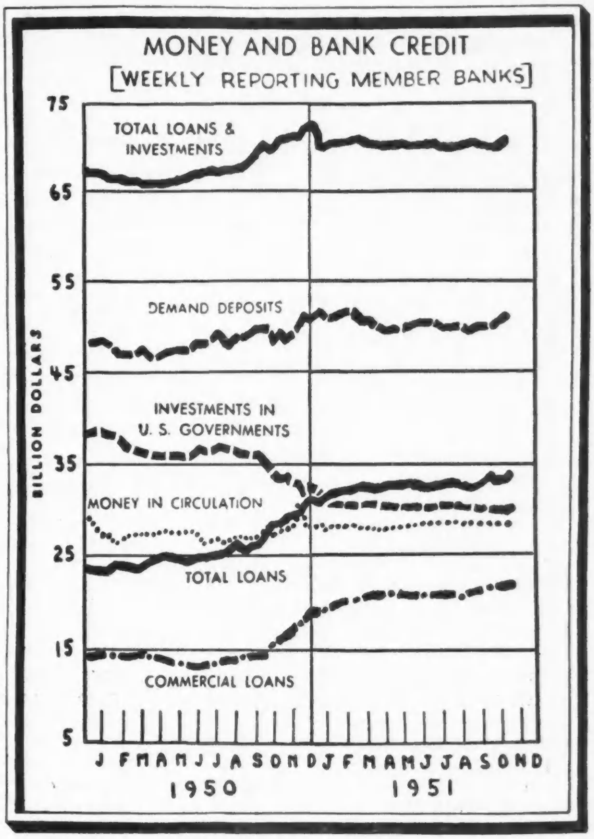
The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—With the Government spending \$5.5 billion in October and higher expenditures ahead, the Treasury is expected to raise additional funds this month by offering \$1 billion of tax anticipation bills maturing June 15, 1952. This financing together with the \$1¼ billion of similar bills sold in October should tide the Treasury over for some time. However, these bills will be used to pay taxes next year and will cut down revenues at that time. If spending continues to expand rapidly and redemptions of Savings Bonds are large, then additional funds may have to be raised next spring. The Treasury also faces some heavy maturities including the \$1¼ billion of tax anticipation bills on March 15 and \$9.5 billion of certificates on April 1, plus increasing amounts of Series E Savings Bonds. The first big test of the desirability of E bonds to investors will come in December of this year when \$398,000,000 of them mature. The Federal Reserve had been pumping funds into the credit system early last month by buying government securities, in order to assure the success of the Treasury's refunding and new money operations. Since then it has been intent on tightening credit and in the three weeks ending October 31, has sold over \$500 million of Treasury obligations. During the same period, excess reserves of member banks were cut in half and totalled \$565 million at the end of October. The nations' money supply continues to rise and amounted to \$177.9 billion on September 26, a \$900 million increase in four weeks time. This includes all bank deposits plus currency outside the banks and compares with a money supply of \$171.6 billion a year earlier. The September increase was made up of a \$600 million rise in demand deposits, \$200 million in time deposits and \$100 million in currency. During the same period bank credit rose by \$2.1 billion as loans were \$1 billion higher, banks increased their holdings of government securities by \$900 million and monetary gold was \$200 million higher. The second big marketing of tax-exempt public housing bonds of various local authorities found ready buyers and most of the longest term forty-year maturities were sold to yield 2.25%. The price has risen since the offering was made late last month and present yield is 2.20%. Government bonds were slightly lower during the past two weeks with the bank eligible 2½s of September 1972-'67 down ¼ point to close at 99⅛ on November 5. This compares with the year's low of 98$^{1}/_{16}$ reached in June.

TRADE—Retail sales were proceeding at a brisker pace in the latter part of October as temperatures dropped and store promotions increased. Some of the buying reflected anticipation of the increased Federal excise taxes that went into effect on November 1. Apparel and food sales were in good volume and demand for furniture improved. Nation-wide department store sales for the week ending October 27 were 4% above the corresponding week of last year. At this time in 1950, scare-buying was no longer an important factor.

INDUSTRY—Industrial production continued at a high level during October. For the week ending October 27, the MWS Index of Business Activity stood at 184.2 against 176.9 a year earlier. Improvement from the previous week occurred in the output of coal, electric power and steel while production of



crude oil and paperboard was lower. Freight car loadings declined seasonally in the latest week.

COMMODITIES—Spot commodity prices were mostly lower during the past two weeks and the Bureau of Labor Statistics daily index of 28 basic commodities closed at 327.1 on November 2 against 332.4 two weeks earlier. Although all components of the index declined, the largest drop was shown by prices of import commodities which fell almost 3%. Domestic farm products showed a nominal decline of only ⅓ of 1%.

The nation's **OUTPUT OF GOODS AND SERVICES** rose to an annual rate of \$328 billion in the third quarter of this year, up \$2.4 billion from the rate of the previous quarter and a new all-time high, according to estimates of the Council of Economic Advisers. Government spending was proceeding at a \$66 billion annual clip in the latest quarter, or \$6 billion above second quarter outlays, while consumer spending at \$204 billion was up \$2.3 billion from the previous quarter. Private domestic investment at \$57 billion was down \$6.5

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Oct.	3.2	2.6	1.3	1.55
Cumulative from mid-1940	Oct.	430.9	427.7	400.9	13.8
FEDERAL GROSS DEBT—$b	Oct. 31	258.3	256.9	256.9	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Oct. 24	52.3	51.3	49.9	26.1
Currency in Circulation	Oct. 31	28.4	28.3	27.2	10.7
BANK DEBITS					
New York City—$b	Oct. 24	10.6	10.2	10.0	4.26
93 Other Centers—$b	Oct. 24	15.9	15.5	15.2	7.60
PERSONAL INCOMES—$b (cd2)	Aug.	254	252	228	102
Salaries and Wages	Aug.	167	167	147	66
Proprietors' Incomes	Aug.	50	49	46	23
Interest and Dividends	Aug.	20	20	19	10
Transfer Payments	Aug.	13	13	12	3
(INCOME FROM AGRICULTURE)	Aug.	23	22	19	10
POPULATION—m (e) (cb)	Sept.	154.8	154.6	152.2	133.8
Non-Institutional, Age 14 & Over	Sept.	109.0	108.9	109.6	101.8
Civilian Labor Force	Sept.	63.2	64.2	63.6	55.6
unemployed	Sept.	1.6	1.6	2.3	3.8
Employed	Sept.	61.6	62.6	61.2	51.8
In Agriculture	Sept.	7.5	7.7	7.8	8.0
Non-Farm	Sept.	54.1	54.9	53.4	43.8
At Work	Sept.	58.5	57.8	58.5	43.2
Weekly Hours, non-farm	Sept.	38.1	42.4	41.5	42.0
Man-Hours Weekly—b	Sept.	2.23	2.45	2.43	1.82
EMPLOYEES, Non-Farm—m (lb)	Sept.	46.9	46.7	45.7	37.5
Government	Sept.	6.5	6.4	6.0	4.8
Factory	Sept.	13.1	13.1	13.0	11.7
Weekly Hours	Sept.	40.5	40.4	41.0	40.4
Hourly Wage (cents)	Sept.	161.2	159.8	147.9	77.3
Weekly Wage ($)	Sept.	65.29	64.56	60.64	21.33
PRICES—Wholesale (lb2)	Oct. 30	177.0	177.1	169.7	92.5
Retail (cdlb)	Aug.	206..3	206.7	190.8	116.2
COST OF LIVING (lb3)	Sept.	186.6	185.5	174.6	100.2
Food	Sept.	227.3	227.0	210.0	113.1
Clothing	Sept.	209.0	203.6	189.8	113.8
Rent	Sept.	137.5	136.8	131.8	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Aug.	12.1	11.8	12.7	4.7
Durable Goods	Aug.	3.8	3.7	5.0	1.1
Non-Durable Goods	Aug.	8.2	8.1	7.8	3.6
Dep't Store Sales (mrb)	Aug.	0.90	0.87	0.95	0.39
Retail Sales Credit, End Mo. (rb2)	Aug.	11.2	10.9	11.0	5.5
MANUFACTURERS'					
New Orders—$b (cd) Total	Sept.	21.3	22.8	23.5	14.6
Durable Goods	Sept.	9.8	10.9	12.1	7.1
Non-Durable Goods	Sept.	11.5	11.9	11.4	7.5
Shipments—$b (cd)—Total	Sept.	21.8	22.6	21.0	8.3
Durable Goods	Sept.	9.9	10.3	9.8	4.1
Non-Durable Goods	Sept.	11.9	12.3	11.2	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	Aug.	70.6	70.8	54.0	28.6
Manufacturers'	Aug.	41.3	40.7	29.7	16.4
Wholesalers'	Aug.	11.5	11.8	9.4	4.1
Retailers'	Aug.	17.8	18.4	14.8	8.1
Dept. Store Stocks (mrb)	Aug.	2.7	2.8	2.2	1.2
BUSINESS ACTIVITY—1—pc	Oct. 27	184.2	184.1	176.9	141.8
(M. W. S.)—1—np	Oct. 27	214.9	214.7	208.4	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 191)

billion during the period. Main factor in this decline was the smaller rate of inventory accumulation as compared to the $14.4 billion rate of the second quarter.

* * *

Sales of the **GAS UTILITY INDUSTRY** to ultimate consumers during August aggregated 3,255 million therms, or 16.1% above the 2,803 million therms sold in the same month of 1950, the American Gas Association reported. **NATURAL GAS** sales of 3,053 million therms topped last year's results for the same month by 17.1% while sales of manufactured gas, dropped 14.8% to a total of only 99 million therms. The continuous increase in utility sales of gas brought the total for the twelve months ending August 31, 1951 to a new high of 46,104 million therms, a rise of 15% when compared with the previous corresponding period.

* * *

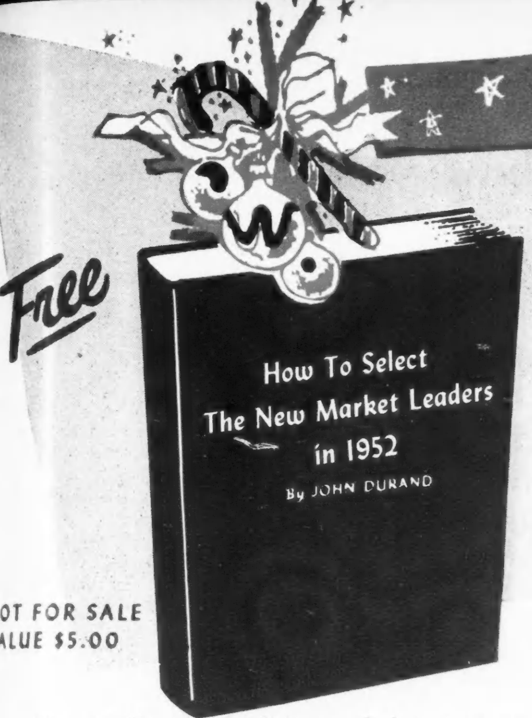
BUSINESS FAILURES in September declined 9% to 620, the lowest level since February, according to compilations of Dun & Bradstreet. This brought total casualties for the first nine months of this year to a level 12% below the 1950 cumulative figure. Firms that failed in September had **LIABILITIES** of $26.6 million, the highest level for any September since 1935, and almost twice as large as a year ago. In comparison with a year ago there were more failures in manufacturing, wholesaling and construction while fewer failures were reported by commercial services and retail trade.

* * *

EXPORTS from the United States during August rose to $1,263 million from the July level of $1,190 million, according to the U. S. Bureau of the Census. The August total included $115 million worth of goods shipped under the Mutual Defense Assistance Program while in July exports for this purpose amounted to $89 million. Important increases in exports were shown for coal and tobacco. **IMPORTS** during August increased slightly to $899 million from $893 million a month earlier. Increased imports of ethyl alcohol, refined copper, and manganese ore occurred during August while imports of crude petroleum and diamonds were lower than in July of this year.

* * *

NEW RUBBER CONSUMPTION in September increased 2.3% to 106,913 long tons from the 104,524 long tons consumed in August, the Rubber Manufacturers Association reported. Consumption of natural rubber at 37,362 long tons was up



NOT FOR SALE
VALUE $5.00

Our Gift to You

How to Select The New Market Leaders in 1952

By John Durand

THIS year . . . we offer you an investment book of outstanding usefulness designed to *serve you in maintaining* . . . and *continuing* . . . a sound and profitable investment position in the period ahead.

Highly realistic—informative—and practical in application, it analyzes and evaluates—clearly and simply—political-economic forces shaping up in the world today, emphasizing their effect on our economy and industry . . . how they will affect you as an investor.

More particularly, it points out the most promising opportunities for above average profit—the new market leaders under conditions likely to prevail in 1952.

Alert to changing conditions and their investment implications, this book—with a one-year subscription to The Magazine of Wall Street—provides a combination investment service that can be worth thousands of dollars to you in investment security and peace of mind.

PART I—*World Forces to Determine Economic-Political Trends in 1952.*

—The Shifting Balance of World Power . . . Effect Britain's decline; Commonwealth Nations as Independent Entities;
—Russia's Political-Economic Power vs. U. S. in Europe . . . The Middle East . . . The Far East . . . Realistic Appraisal of Danger Spots . . . Our New Vulnerability . . . Financially . . . Economically . . . Militarily;
—Strength and Weakness in Western Coalition;
—Erupting Middle East . . . Far Reaching Economic-Political repercussions on the U. S. . . . The West as a Whole;
—Evaluating "Point-Four" Program . . . Vital Considerations involved in Industrializing Densely Populated Low-Wage Areas . . . What Can We Expect from This Investment?;
—World Under Continued Cold War . . . Uneasy Peace . . . Showdown with Russia in 1952?

PART II—*Realistic Appraisal of U. S. Financial-Economic Position as We Enter 1952.*

—The American Dollar . . . At Home and Abroad . . . Budget Deficit Financing . . . Gold Revaluation;
—Politics in Defense Program . . . Election Year Influences;
—Joker in Defense Production Timetable . . . Shifts and Rechanneling of War Orders . . . to Avoid Danger of Rapid Obsolescence . . . In Light of Current Military Experiences;
—The Requisites for Flexible Economic Adjustment to Meet Progressive Impacts on Industry and Trade;
—How Much Strain on Civilian Goods Under Cutbacks . . . Controls . . . Gov't-Dominated Supplies of Commodities;
—Clarification of Inflation-Deflation Picture;
—The Hurdle of Over-Capacity for Civilian Production . . . Continuing Inventory Glut . . . Consumer Buying Power Under Impact of New Taxes;
—Prospects for Business Profits in Period Ahead.

PART III—*Which Industries? Which Companies?*

(a)—Individual Industries Under Semi-Defense Economy.
—Relative Position of Major and Secondary Companies Looking to 1952 . . . Where Dynamic . . . Where Static . . . Where Long-Term Growth Potentials Exist . . . Revitalized Companies . . . Specialties;
—Study of Profit Margins . . . Balancing Benefits from Modernization . . . New Processes . . . New Plants . . . Against Increased Taxation . . . Higher Costs . . . Potential Consumer Buying Power;
—The Importance of Substantial Dividend Coverage . . . Under Adjustments . . . and Profit Uncertainties.

(b)—PLANNING FOR PROFIT AND INCOME
—Reconciling Your Tax Position with Your Income Objectives . . . Stressing Advantage of Capital Gains to Supplement Regular Income Return;
—How to Maintain a Sound and Flexible Investment Position . . . Strengthen Your Current Portfolio;
—When Dollar Averaging is Desirable . . . Switching Where Issues Indicate Vanishing Return . . . Marking Down Cost of Holdings . . . Using Profits for Reinvestment in Emerging Market Leaders;
—How to Select the Right Kind of Dynamic Specialties;
—Applying Calculated Percentage of Profits for Venture Capital in Low-Priced Fortune Building Opportunities.

PART IV—*The Stock Market Looking to 1952.*

—Discounting of Business Prospects for the First Half;
—1952 Election as a Developing Market Factor;
—The Effect of Continuing Absorption of Blue Chips on Floating Supply . . . Thin Markets;
—Can Balancing Factor of Investment Trust . . . Institutional Buying . . . Minimize Large Scale Market Break?;
—To What Extent Can Market . . . in Cyclical Phase . . Withstand Shock of Unexpected World Developments?;
—Where Shift in Leadership will make for Dual Market;
—Emphasis on Special Situations . . . Emergence of New Group Trends and Opportunities for 1952 . . . New Market Leaders in the Making.

PART V—*Specific Security Selections.*

1. **Top-Grade Investments** to Net Return of 6% and More . . . with Inherent Appreciation Potentials;
2. **Special Growth Companies** for Capital Building Where Groundwork Has Been Laid to Exploit for Further Growth . . . Tax Sheltered Growth Companies;
3. **Dynamic Low-Priced Stocks** . . . Strategically Placed . . Including Fortune-Building Type . . . Where $100 Can Do the Work of $500.

PLUS . . . Individual Portfolios . . . Soundly Balanced from Above Selections:

—For Personal Annual Income Return of . . . $4,000—$7,000—$10,000.
—For Accumulated Funds of . . . $5,000—$10,000—$25,000.

THIS PROGRAM TO ENABLE YOU TO INVEST FOR GREATER SECURITY — INCOME — PROFIT . . . WILL BE CONTINUED IN

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Sept.	219	217	211	174
Mining	Sept.	169	166	163	133
Durable Goods Mfr.	Sept.	273	268	251	220
Non-Durable Goods Mfr.	Aug.	192	193	194	151
CARLOADINGS—t—Total	Oct. 27	864	887	888	833
Misc. Freight	Oct. 27	414	428	423	379
Mdse. L. C. L.	Oct. 27	75	76	88	156
Grain	Oct. 27	53	57	59	43
ELEC. POWER Output (Kw.H.) m	Oct. 27	7,234	7,149	6,563	3,267
SOFT COAL, Prod. (st) m	Oct. 27	11.6	11.4	11.7	10.8
Cumulative from Jan. 1	Oct.	434	423	414	44.6
Stocks, End Mo.	Sept.	76.2	75.4	59.0	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Oct. 27	6.3	6.3	5.9	4.1
Gasoline Stocks	Oct.	111	111	105	86
Fuel Oil Stocks	Oct.	49	49	44	94
Heating Oil Stocks	Oct	102	101	84	55
LUMBER, Prod.—(bd. ft.) m	Oct. 27	637	640	630	632
Stocks, End Mo. (bd. ft.) b	Aug.	7.9	7.5	6.4	12.6
STEEL INGOT PROD. (st) m	Sept.	8.64	8.73	8.20	6.96
Cumulative from Jan. 1	Sept.	78.3	69.7	71.7	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Nov. 1	210	189	200	94
Cumulative from Jan. 1	Nov. 1	11,961	11,751	10,115	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Oct. 27	185	169	222	165
Cigarettes, Domestic Sales—b	Sept.	31	37	31	17
Do., Cigars—m	Sept.	491	534	504	543
Do., Manufactured Tobacco (lbs)m	Sept.	19	22	21	28

PRESENT POSITION AND OUTLOOK

1.6% from August but 37.2% below the results for September of last year, while synthetic rubber use of 69,551 long tons in September was up 2.7% from a month earlier and 47.3% better than consumption in September of last year.

* * *

Nation-wide **ADVERTISING EXPENDITURES** in September fell 2% below August, but were still 22% above the level of September 1950, according to the compilations of Printer's Ink. Expenditures for advertising appearing in magazines and on television showed advances from a month ago while radio advertising with an 11% drop, had the largest decline. Compared with a year ago television advertising showed a spectacular 212% gain, followed by magazine with a 12% increase.

* * *

Shipments of **FABRICATED STRUCTURAL STEEL** in September amounted to 229,299 tons, a drop of 11% from the 240,072 tons shipped in August but 15% above deliveries of 198,719 tons in September of 1950, the American Institute of Steel Construction has reported. **NEW ORDERS** received during September totalled 188,013 tons which was below the 212,256 tons booked in August and a sharp drop from new orders for 317,225 tons received in September of last year.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated, en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m—Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment sale credit and charge accounts. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

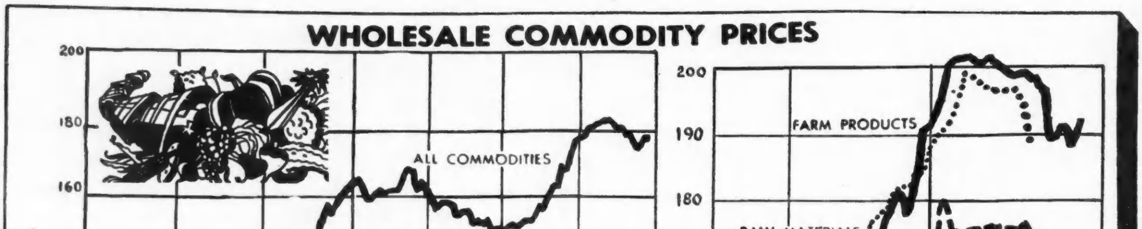
THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1951 Indexes High	Low	Oct. 27	Nov. 3
334 COMBINED AVERAGE	204.6	172.6	189.9	190.3
4 Agriculaural Implements	318.0	246.5	288.4	288.4
10 Aircraft ('27 Cl.—100)	339.1	252.8	302.1	302.1
7 Air Lines ('34 Cl.—100)	764.7	634.0	647.1	660.1
8 Amusement	112.5	86.6	100.9	101.8
10 Automobile Accessories	257.6	216.2	236.9	234.6
11 Automobiles	46.3	36.1	38.6	38.6
3 Baking ('26 Cl.—100)	23.2	21.0	21.8	21.8
3 Business Machines	410.1	300.8	389.6	392.5
2 Bus Lines ('26 Cl.—100)	183.1	150.6	154.0	155.7
6 Chemicals	427.8	326.0	372.3	375.6
3 Coal Mining	18.3	13.2	14.0	14.4
4 Communications	72.5	58.3	63.9	63.2
9 Construction	73.0	60.2	69.5	69.5
7 Containers	490.6	376.5	472.4	472.4
9 Copper & Brass	171.9	126.3	153.6	154.9
2 Dairy Products	84.0	75.9	80.8	82.4
5 Department Stores	84.5	66.0	68.2	67.4
6 Drugs & Toilet Articles	235.0	213.6	220.0	217.8
2 Finance Companies	310.5	243.0	295.8	300.7
7 Food Brands	200.9	171.4	178.7	176.8
2 Food Stores	118.4	99.3	99.3	101.5
3 Furnishings	75.0	65.0	65.0	65.0
4 Gold Mining	779.8	579.3	690.7	668.4

(Nov. 14, 1936, Cl.—100)	High	Low	Oct. 27	Nov. 3
100 HIGH PRICED STOCKS	124.4	107.1	116.3	116.9
100 LOW PRICED STOCKS	252.9	208.6	233.6	232.7
5 Investment Trusts	98.9	84.8	90.6	91.4
3 Liquor ('27 Cl.—100)	1250.1	1066.6	1135.5	1135.5
11 Machinery	215.9	177.7	200.7	198.1
3 Mail Order	152.0	125.3	130.6	129.3
3 Meat Packing	109.1	85.7	91.9	93.0
13 Metals, Miscellaneous	314.8	233.0	290.0	287.6
4 Paper	416.9	344.3	369.8	373.2
29 Petroleum	447.3	355.0	418.9	429.6
30 Public Utilities	155.6	142.5	152.8	152.8
9 Radio & TV ('27 Cl.—100)	32.6	26.6	29.4	29.1
8 Railroad Equipment	73.8	57.5	63.6	63.6
24 Railroads	45.4	34.2	38.1	38.5
3 Realty	41.0	34.3	37.4	38.2
3 Shipbuilding	184.4	139.1	169.3	169.3
3 Soft Drinks	395.5	306.9	310.2	306.9
15 Steel & Iron	169.5	134.1	153.3	151.8
3 Sugar	77.6	66.5	72.5	72.5
2 Sulphur	655.3	425.3	546.8	542.5
5 Textiles	223.6	189.3	189.3	189.3
3 Tires & Rubber	75.3	51.2	67.0	65.5
6 Tobacco	86.7	75.3	82.6	81.0
2 Variety Stores	325.6	301.1	307.2	310.3
20 Unclassified ('49 Cl.—100)	127.3	109.4	116.3	116.3

Trend of Commodities

The revival of Korean peace talks has again tempered inflationary thinking with the result that a two-sided market for commodity futures ruled during the past fortnight. Grains and cotton showed improvement during the period while sugar, cocoa, lard and other fats and oils sought lower levels. Wheat futures were mixed during the past two weeks with the near months up by ½ to 1¼ cents while the new crop July option lost 1 cent to close at 246⅜ on November 5. Support for wheat was engendered by the good export outlook as foreign countries will have to turn to this country for supplies in view of crop reversals in Argentina and Australia. Domestic wheat stocks totalled 1,276 million bushels on October 1 or 80 million bushels less than a year ago. Corn futures on November 5 were virtually unchanged from two weeks earlier. Corn disappearance in the July-September quarter of 524 million bushels was under the 562 million bushels in the corresponding quarter of last year despite the increase in the number of consuming animals. The present supply is equal to 14.9 bushels per grain-consuming animal which is below the 15.5 bushels per animal on hand a year ago but above the 10-year average of 13.7 bushels. Cotton prices have been quite strong and the nearby December option closed on 39.34 cents on November 5 against 37.01 cents on October 22. Bullishness was encouraged by Agriculture Secretary Brannan's statement that carry-over next August may not exceed 3 million bushels. World sugar futures lost 20 to 40 points in the past two weeks as the U. S. Department of Agriculture estimated next year's world production would equal this year's record breaking crop which was 26% above the pre-war average.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	Date Nov. 2	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec. 6 1941
28 Basic Commodities	327.1	332.4	326.8	336.1	156.9
11 Imported Commodities	334.0	341.4	345.1	363.2	157.3
17 Domestic Commodities	322.7	326.7	315.5	319.7	156.6
7 Domestic Agriculture	358.2	359.3	354.2	351.2	163.9
12 Foodstuffs	363.0	370.0	366.0	351.4	169.2
16 Raw Material	314.0	317.6	311.7	328.9	148.2

14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1951	1950	1947	1945	1941	1939	1938	1937
High	214.5	304.7	164.0	95.8	74.3	78.3	65.8	93.8
Low	174.8	134.2	126.4	93.6	58.7	61.6	57.5	64.7

Average 1924-26 equals 100

	1951	1950	1947	1945	1941	1939	1938	1937
High	215.4	202.8	184.4	111.7	88.9	67.9	57.7	86.6
Low	176.4	140.8	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

Westinghouse Electric International Company has announced the early shipment of a new high intensity lighting system to Lima, Peru, mid-way point in Panagra's South American operations. The new approach lighting system is needed because during the winter heavy clouds often seal in the Lima area and create serious visibility problems. The installation includes 29 stations, each utilizing as many as ten 80,000 candlepower lights to guide planes onto a 6,000 foot runway. The installation also includes a five-level brightness control system, airfield distribution equipment, and emergency power generating and switchgear equipment.

Indications that the long-awaited and much-rumored passenger sedan of **Willys-Overland Motors, Inc.** might be on the market by the end of the year came from a statement of the President of the company. He stated that the company had invested and committed an expenditure of $10 million for research, development and tooling for a car distinguished by numerous applications of advanced aeronautical engineering. Since the war's end, Willys has made only jeeps, all-steel station wagons and light trucks. Public introduction will be made as soon as a sufficient number of cars can be produced to supply all dealers.

Disclosing the great scope of its research and engineering in developing electronic picture tubes for color television, **Radio Corporation of America** has built at least five types of tri-color tubes, each one capable of operation on all known television systems, as well as the field sequential method and standard black-and-white. The development of the tri-color picture tube is one of the outstanding scientific achievements to come out of the electronic industry since the end of the war. The selection by RCA on one particular tube does not mean that other tubes are not promising. Practical reasons made it desirable, at this time, to narrow the choice to one tube for pilot-plant production. By initially concentrating the major part of the work on five tubes instead of one, it was felt that the company had a better chance of coming up with one which would be best suited to its needs.

Optical and ophthalmic glass for the war effort is being produced by **Pittsburgh Plate Glass Company** at its Ford City, Pa. plant. Optical glass is a special type product utilized in the manufacture of lenses for telescopic and photographic equipment. Typical uses in the defense program for this glass is in binoculars, range finders, gun and bomb sights, periscopes and in general fire control instruments. A new facility for production of optical and ophthalmic glasses for defense purposes had been granted a certificate of necessity by the Defense Production Administration covering a 5-year write-off on 50-70% of the $3,525,870 cost, bulk of which is in cost of equipment.

A revolutionary new method of industrial X-ray film showing has been announced by the **General Electric Company.** This is an iris-diaphragmed, high-intensity viewer that allows study of the widest range of x-ray film densities ever possible in the industrial field. Film densities of from 0.5 to 4.5 can be penetrated by the new illuminator. This enables the radiographer to diagnose an object of greatly varying thicknesses with only one exposure. And it also eliminates the need for re-takes on over-exposed films. To see through such films merely requires turning up the light intensity.

Twin Coach Company has perfected a new integral design, high-speed, large capacity, bulk load delivery truck to be known as its Fageol Super Freighter "Manhattan Express" model. This is reputed to possess greater load-carrying capacity than any other truck of similar over-all length. The new truck is especially designed for use in congested areas, but also for long distance hauling. It is also capable of extra high sustained speeds on cross-country runs.

United States Rubber Company has announced some interesting new products. One is a new chemical which slows the growth of grass and may slash millions of dollars annually from the cost of mowing the roadsides and center islands of local, state and national highways. Another is a new chemical blowing agent for the manufacture of both rubber and plastic sponge products. Some of the end product applications in which the blowing agent is expected to be used are: shock pads, aircraft wing lining, rug underlay, finishing floats, mine cable floats, life rafts, life rings and cushioning material. A third development is the expansion of the company's Koylon foam rubber production for the manufacture of foam mattresses and cushioning.

Federated Department Stores, Inc., one of the nation's largest retailing groups has inaugurated a major program to build and operate new department stores in dynamic medium-sized and smaller cities with outstanding growth records and important defense and industrial activities. The new stores will be operated as a division of Federated, under the name "Fedway." Ground for the construction of the first two new Fedways will be broken at Wichita Falls and Amarillo, Texas. These will be followed by additional Fedway units in five additional cities. Since Fedway stores will be located in widely scattered cities, where the expense of maintaining special staffs in each store would be prohibitive, the new units will be served by their own central buying and operating organization located in New York City. Support by the central organization and develop-

ment of a Fedway merchandising pattern will simplify and facilitate rapid and efficient expansion of the group.

The Boards of Directors of **Mathieson Chemical Corporation** and Mathieson Hydrocarbon Chemical Corp. have adopted a plan of merger. The merger of the two corporations will be a statutory merger, and it has been declared tax-free by the Treasury Dept. The terms of the merger include: (a) Shareholders of Mathieson Hydrocarbon shall receive two-thirds of a share of Mathieson Chemical for each share of Hydrocarbon. This exchange will require 385,778 shares of Mathieson common stock; and (b) the preferred stock of Mathieson Chemical, outstanding in the amount of 23,777 shall be converted into four shares of common for each share of preferred. An important condition of the terms is that a total of 250,000 shares of new preferred will be authorized and it is the intention of the corporation to sell a substantial portion of this stock with the proceeds to be added to the working capital and used for research and product development.

Opening of San Francisco's new North Point sewage disposal plant means that the project, costing $8.5 million out of a $20 million program, is of special interest to stockholders in **Fairbanks, Morse & Co.** The North Point plant covers eight acres and consists of eleven separate reinforced concrete structures lying two thirds below the ground surface. Heart of the operation is a bank of five Fairbanks-Morse vertical sewage pumps. Each pump is driven by a two-speed synchronous motor of 175 horsepower. Fourteen 2200 gpm Fairbanks-Morse centrifugal pumps are spotted through the plant on low-pressure water service.

The world's biggest fluid catalytic cracker, a giant 60,000 barrel per day refining unit, has been officially opened at the refinery of the **Gulf Oil Corporation** at Port Arthur, Texas. The unit covers almost 150,000 square feet of land and at its highest point approaches the height of a 22-story building. With the installation of the "cat" along with supplemental equipment, the over-all capacity of the plant will be increased from 245,000 to 275,000 barrels per day. The unit, which will have an output approximately 20% greater than any similar installation currently in operation, will produce ingredients for aviation gasoline, materials for synthetic rubber production, high quality automotive gasolines, and home heating oils. Particularly important is the output of ingredients for synthetic rubber.

Built and designed by the **Pressed Steel Car Company, Inc.,** a new and revolutionary refrigerator truck-trailer made of cellular plastic-laminated plywood has been introduced to the trucking and shipping industry. The new trailer is constructed of cellular laminates, a relatively new material made by laminating strong plywoods grain-against-grain with specially formulated super-strength plastics. This new use of plywoods saves war-scarce materials such as aluminum, stainless steel and carbon steel of which conventional trailers are generally built. The new trailer makes it possible for truckers and shippers to get flexibility of operation, enabling them to ship an unrefrigerated load in one direction and a refrigerated load of meat, dairy products, frozen foods or fruits and vegetables in the other direction without sacrificing costly space and weight that would cut down payloads.

The Board of Directors of **International Minerals & Chemical Corporation** has authorized a contract with shareholders of Hoover & Mason Phosphate Co. providing for the acquisition of the latter. Under the transaction, International Minerals will acquire between $750,000 and $800,000 in cash or current assets and about 2500 acres of phosphate mining property. This would add substantially to International Mineral's undeveloped phosphate reserves.

At a special meeting, stockholders of **Raytheon Manufacturing Company** approved a key employee incentive plan. The new plan is generally similar to plans adopted by other leading corporations under the provisions of the Revenue Act of 1950. Aggregate number of shares reserved for purchase by key employees is limited to 175,000 and the maximum number of shares which may be purchased by any individual is limited to 20,000. Fifteen principal officers and officials have been granted rights to purchase an aggregate of 94,000 shares at $9.50 a share and six others to rights to purchase 7000 shares at $8.50 per share. It is presently contemplated that no more than 25 or 30 employes will receive rights under the Plan.

The Bakelite Company, a division of **Union Carbide and Carbon Corporation,** has developed a number of new products made of durable Vinylite plastic. Among them are aprons that look like satin, new washable playing cards, ladies' billfolds, Yuletide decorations, inflated grandstand cushions for seats on floor or bench, new repair kits for items such as shower curtains, table cloths, etc., and illuminated signs for counter display.

Robert R. Young, Chairman of the Board of the **Chesapeake & Ohio Railway Company** has announced that he plans a series of conferences aimed at renewing his effort to gain control of the **New York Central Railroad.** Three years ago, a bid by Mr. Young for a position on Central's Board, after C & O had acquired 400,000 shares of N. Y. Central stock was rejected by the Interstate Commerce Commission which required that the stock be placed in a voting trust. This meant that while financial benefits from the stock were available to C & O, the company could not vote the stock at N. Y. Central meetings. This situation has been of great importance to the investment world.

Warren Petroleum Corporation has acquired the final 25% interest in Devonian Co. which is now a wholly-owned subsidiary. The final quarter-interest which had been held by Gulf Oil Corp. was acquired for about $5.3 million plus interest payable at 4½%. At the same time, Warren purchased from Gulf a subordinated note of Devonian for $4,750,000 plus interest. The oil and gas payments to Gulf will be completed in approximately five years after which the 25% interest will revert to the Devonian Company.

Ground was recently broken at Valdosta, Georgia for the new 500-ton per day kraft pulp, board and paper mill of the **National Container Corporation.** This is expected to add 50% to the company's annual production. The mill will be National Container's sixth. The Certificate of Necessity under which the mill is being construced will permit accelerated amortization of the cost. A construction fund of $22.1 million has been trusteed for the project.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

McKesson & Robbins

"I have been a subscriber to your publication for a good many years but do not often take advantage of your personal Consultation Service. Would appreciate receiving information in regard to recent earnings and dividend prospects of McKesson & Robbins."

S. M., Raleigh, N. C.

Consolidated net income of McKesson & Robbins Inc., for the fiscal year ended June 30, 1951, amounted to $8,725,067 compared with $8,232,105 for the 1950 fiscal year, despite a Federal tax increase from $5,104,434 to $10,833,732 in 1951. Recent increase in taxes made retroactive to April will alter the figures somewhat.

The 1951 earnings are equivalent to $4.36 per share on 1,844,469 common shares outstanding, which includes the 10% stock dividend declared on May 23 and paid on July 23, after provision for dividends of $175,000 on the $4.00 cumulative preferred stock to October 15, 1950, when it was redeemed. The 1950 earnings were equivalent to $4.14 per share on the same number of shares, after dividends of $600,000 on the $4.00 cumulative preferred stock.

Net sales for the period were the highest in the company's history, totalling $433,074,249 or 18% above sales of $367,581,792 in 1950.

At June 30, 1951, current assets were $133,297,801 and current liabilities were $52,861,096 so that net current assets amounted to $80,436,705, an increase of $7,716,999 over last year.

The company's wholesale drug sales improved, due in large part to higher national disposable income and the expanding use of antibiotics and other new medicinal products, many of which were introduced during the year by the company's suppliers. Profits also increased in this department, as did sales and profits of McKesson Laboratories, the company's manufacturing division.

Sales of the liquor department rose sharply immediately after the Korean war started and have since levelled off. Both sales and profits for the year were substantially higher than for the previous year.

Sales and profits of the chemical division were also improved. Plans are being developed for increasing the business of this division through broader and more efficient utilization of the company's drug warehousing facilities.

Dividends in 1950 totalled $2.41 per share and 62½ cents is the current quarterly rate and this rate is expected to continue.

Eversharp Inc.

"Please report recent sales and earnings of Eversharp Inc."

D. I., Galveston, Texas

Net sales of Eversharp, Inc., for the six months ended August 31, 1951, were $8,604,045, as compared with $9,279,481 for the same period in the preceding year. Increased inventories by dealers during July and August of last year were largely responsible for the increase in shipments during the six months period.

Net profit, after taxes, amounted to $833,763, compared with $1,106,319 for the first six months of 1950. Computed at the current tax rate and subject to audit and year-end adjustments, earnings are equivalent to 88 cents per share on 908,789 shares of common stock outstanding after payment of regular dividends on the preferred stock. For the same period last year, earnings equalled $1.14 per share on the 941,689 shares of common stock then outstanding after payment of dividends on the preferred stock.

The dividend rate on the common stock was maintained with declaration of a quarterly dividend of 35 cents per share on September 20, payable November 1, 1951 to stockholders of record October 16.

As of August 31, 1951, Eversharp Inc., has purchased 32,900 shares of its common stock in the open market.

Avco Manufacturing Corporation

"Please furnish information as to recent operations of Avco Manufacturing Corporation and also dividends."

S. P., Providence, R. I.

Consolidated net income of Avco Manufacturing Corporation for the nine months ended August 31, 1951, after all charges including Federal taxes, amounted to $7,660,372, as compared with $7,712,538 during the comparable period of 1950.

Earnings during the first three quarters of the current fiscal year, after preferred stock dividend requirements, were equivalent to 84 cents per common share, based on 8,755,353 shares outstanding, as compared with $1.08 per share for the similar period last year, based on 6,751,700 shares then outstanding. Earnings for the current fiscal period include profits in the amount of $1,032,507 realized on the sale of investments during the third fiscal quarter, and reflect provision for Federal income taxes

at rates currently in effect.

Net sales for the first three quarters of fiscal 1951 amounted to $210,947,060 compared with sales of $160,330,491 during the like period last year.

Sales in most segments of Avco's appliance business had declined during the late spring and summer months, reflecting an industry-wide softening in the market for major household appliances. However, during recent weeks there has been an improvement.

Avco's other civilian operations have continued at satisfactory levels throughout the nine months period. The major portion of the company's substantial backlog of defense business is not expected to reach the volume production stage until the next fiscal year.

Current quarterly dividend rate is 15 cents per share, 50 cents was paid in full year of 1950.

Avco manufactures a wide variety of consumer goods and industrial products, such as television receivers, radios, farm equipment, home appliances, aircraft and industrial engines, heating boilers, precision machine parts and castings. A subsidiary owns and operates radio station WLW in Cincinnati and WINS in New York and television in Cincinnati, Columbus and Dayton. Substantial investments are in New York Shipbuilding Corporation.

Thatcher Glass Manufacturing Company

"Please furnish recent earnings of Thatcher Glass Manufacturing under the recently enacted tax law and also please report on the products the company specifically makes."

T. D., Amarillo, Texas

Thatcher Glass Manufacturing Company Inc. registered a 35.8% increase in net income on a record high volume of business in the twelve months ended September 30, 1951. Net earnings before Federal income taxes were nearly double those of the year before. The results include only five of the twelve months operation of the new Laurensburg, Indiana plant at which full production was started in May 1951.

Sales for the twelve months period was $23,038,482, an increase of 31.27% over the $17,550,463 volume of business reported for the preceding twelve months. Net income after all charges and after Federal income taxes, computed according to provision of the recently enacted tax law, was $1,248,848. This is equal after preferred dividends to $2.39 per share on 408,308 shares of common stock. It compares with $919,305 or $1.58 per common share, earned in the twelve months ended September 30, 1950.

Net earnings before Federal income taxes for the latest fiscal period were $2,726,648, compared with pre-tax earnings of $1,364,005 in the year before. The provision for Federal income taxes, computed on the basis of provision of the new tax law was equal to $3.62 per share on the common stock, against $1.09 per share a year ago.

Although all major divisions have been contributing to the gain, the overall increase in sales and earnings resulted largely from the progress of the general and beverage line glass container divisions on which the management has been placing particular emphasis in recent years. Of aid also has been the output of the company's new plant at Laurensburg, Indiana at which full production was commenced last May. Operations continue at capacity, and the current outlook for the company and its recently acquired McKee Glass Company division is enhanced by sustained growth of the glass industry.

Thatcher Glass Manufacturing Company is the country's largest producer of milk bottles and an important producer of glass containers used in packaging foods. beverages (soft drinks, beer, whiskey, etc.) and other products. Milk bottles which formerly comprised the company's entire production now account for only about one quarter of the total. McKee Glass Company derives about two thirds of its income from the sale of glass fronts for electric washing machines, bowls for food mixers and glass parts for various other industrial products. Most of the remainder is obtained from the sale of "Glassbake" ovenware, tableware and other household items.

Dividends are currently being paid at a 25 cent quarterly rate.

Hilton Hotels Corporation

"I know the hotel business in normal times is highly competitive but have been wondering how Hilton Hotels Corporation has been faring recently. Will you please furnish pertinent data?"

F. H., Arcadia, California

Gross revenues of Hilton Hotels Corporation for the first six months of 1951 totalled $24,912,143, a substantial increase over the total of $22,165,976 in the same period last year.

Profit before Federal income and excess profits in the first half of the year were $3,917,547 against $3,559,697 in the corresponding months of 1950. The amount reserved for Federal income and excess profit taxes rose from $1,248,399 for the first six months of 1950 to $1,976,769 in the six months ended June 30 last.

Net profit for the first half of 1951 amounted to $1,940,778 after providing for all charges. This compares with $2,111,318 in the same period of 1950. After providing for dividends on the convertible preference stock, net earnings in the 1951 period were equal to $1.17 a share on the 1,592,077 common shares outstanding compared with $1.33 a share on the 1,515,629 shares outstanding June 30, 1950.

There also was a substantial equity for the corporation in earnings of its subsidiaries, amounting to $539,373 or 34 cents per share of common stock during the first six months of 1951. Of this total, $277,000 was attributable to the Waldorf Astoria Corporation and $262,373 to the Mayflower Hotel Corporation. For the first half of 1950 the parent company's equity in earnings of unconsolidated subsidiaries was $670,175 or 44 cents a common share, with $384,314 of the total coming from the Waldorf Astoria and $285,861 from the Mayflower.

Gross revenue for the three months period ended June 30, 1951 was $12,884,974 compared with $10,797,366 in the second quarter of 1950. Net profit for this quarterly period, after all charges, was $952,946 compared with $968,100 in the corresponding three months of 1950. These earnings represented 57 cents a share of common stock on the 1,592,077 shares outstanding June 30, 1951 compared with 61 cents a share on the 1,515,629 shares outstanding June 30, 1950.

Quarterly dividends of 30 cents per share are currently being paid, against $1.15 paid in the full year of 1950.

Reeves Brothers Inc.

"The textile industry has suffered some sharp contractions during the past year and I was wondering how Reeves Brothers operations have compared with the previous year."

E. T., Ashland, Kentucky

Reeves Brothers Inc., leading textile manufacturer and subsidi-

(*Please turn to page* 206)

Study of Electric Bond and Share

(*Continued from page* 187)

as follows:

	Estimated Millions	Approx. Amount Per Share
Estimated working capital, including holdings to be sold	$ 20	$ 3.80
Ebasco Services	15	2.87
American & Foreign Power at est. $12 per share	45	8.60
	$ 80	$15.27
United Gas Corp. at 24 (recent market)	76	14.45
	$156	$29.72

At the recent market price around 24, EBS is selling at nearly 20% discount from the above estimated market value of its holdings. However, if it is compelled to divest itself of United Gas Corp., and should this stock be distributed to its own stockholders, it might then be expected to sell around 9½ (24 minus·$14.45), which would then make the discount about 38% from the remaining estimated value of $15.27.

The above estimated values assigned to EBS' holdings are based on the following factors. Ebasco Services, which has been in business since 1905, is one of the largest engineering and consulting firms in the United States. It renders engineering, construction, and a wide range of consulting services to public utility, industrial, financial and other business enterprises throughout the United States and in 22 foreign countries. In 1950, Ebasco had an income of $1,924,000 and paid dividends of $1 million to Electric Bond & Share. A dividend of $750,000 was paid in June, 1951, apparently indicating a 50% increase in annual payments. The valuation of $15 million represents a multiple of about 7.8 times 1950 earnings, and a current yield of 10%.

The stock which is perhaps most comparable, Stone & Webster, last year had consolidated share earnings of $2.87 out of which $2 dividends were paid. At 24, the stock sells at about 8 times earnings and yields 8.4%. However, Stone & Webster has a securities portfolio including companies with substantial natural gas holdings, and it is estimated that unrealized profits in this portfolio approximate $16 million or nearly $8 a share. Without this advantage the stock might sell on a somewhat higher yield basis, and at a lower multiple of earnings.

Ebasco has a good backlog of supervised construction projects, estimated currently at over $380 million. In 1950, profits from "general services" were $13.9 million while "non-profit services" (to utilities affiliated with EBS) were $3.7 million. As EBS continues to give up its interest in former affiliated companies, there may be a further conversion of non-profit services to profitable services—particularly if United Gas is disposed of. The greater proportion of profitable services would thus be a supporting factor in Ebasco earnings. Another angle is that Ebasco management may prove useful to EBS in the future in selecting suitable investments for the $20 million "working fund", which EBS proposes to employ so far as practicable in "special situations".

While the $15 million valuation for Ebasco Services may seem conservative, it must be kept in mind that in the past two years, the utility companies have had a huge construction and financing program, and there has also been a tremendous amount of other construction work including the defense program. (The company has about equal numbers of utility and other customers.) The utility program may be substantially completed by 1954, according to present plans, and other construction work will be subject to Federal defense plans as well as the fluctuations of the business cycle. Part of the present earning-power and dividends of Ebasco Services may therefore prove to be more or less temporary over the next two or three years, and this must be "discounted" in estimating the value.

The valuation of $12 per share for the new common stock of American & Foreign Power compares with some Street estimates of $14 or more. At $12 the stock would be selling at around 5 times estimated earnings, and if the estimated $1 dividend is paid, the yield would be 8.4%. Here again it is difficult to find comparable stocks. Brazilian Traction, Light & Power, a conservatively capitalized Canadian holding company with large electric interests in Brazil, is currently selling around 24½ to yield 8.2%. Last year the stock earned $4.59, making the price-earnings ratio 5.3%. The capitalization appears more conservative than the proposed new set-up of Foreign Power, and common dividends have been paid in 31 of the past 40 years.

On the other hand, American & Foreign Power has a speculative "kicker" in its huge Argentine properties from which it now receives little or no income, since the principal properties have been taken over by the Peron regime. Should any future agreement be reached with General Peron or his possible successor, settlement of the claim for these properties might be fairly substantial since they are carried on the books at about $117 million. However, American & Foreign Power's new common stock must be considered speculative so long as Latin American currencies continue to fluctuate as they have in the past in terms of U. S. dollars, and particularly as long as the New York office may have recurring difficulties in bringing sufficient cash earnings to New York to maintain dividend payments.

Future Dividend Potentials

It appears likely that with its simplified set-up and eventual freedom from holding company regulation, Electric Bond and Share in future could pay out virtually all of its estimated net income of $1-$1.50 (see table) as "tax-free" dividends. While the substantial book losses now on its balance sheet (as reported to the Treasury Department) are principally on the present holdings of five or six kinds of Foreign Power securities, these losses will automatically be transferred to its holding of the new common stock. Under present Treasury regulations, EBS could realize losses in any future year (sufficient to offset dividend income, in its tax return) merely by selling part of its Foreign Power stock, and repurchasing a month later if it desired to maintain the investment intact. It is estimated that this procedure could perhaps be carried on for some 25 or 30 years, during which period any dividends paid by EBS could be considered as a "return of capital" rather than income by EBS stockholders.

Of course this would mean that each stockholder should mark down the cost price of EBS on his tax books annually by the amount of the dividend, and whenever he

(*Please turn to page* 200)

Study of Electric Bond and Share

(*Continued from page* 199)

sold the stock in future he would have to pay a 26% capital gains tax on the difference between this marked-down cost and the sales price. Thus the term "tax-free" is not very accurate. Nevertheless, considering present high tax brackets for wealthy stockholders, a future cash dividend of $1-1.50 subject only to eventual capital gains taxes might prove very attractive to such investors.

A parallel situation is that of United Corp., whose stock is currently selling at 4¾, while the 20¢ dividend (representing a payout of almost the entire net earnings) affords a yield of only 4.2%. United Corp. could also pay tax-free dividends for about thirty years, it is estimated, the same as EBS, if sales and repurchases were properly spread over the whole period, if tax regulations remain unchanged, and if the market values of its holdings remain about as at present.

Assuming that the holding company position of EBS is clarified over the next year or so, as that of United Corp. has now virtually been clarified, a similar 4.2% yield basis could theoretically mean a future market value for EBS of 36. The possible distribution of United Gas would change the picture slightly. The value of a $1 dividend capitalized at a 4.2% yield is $24, to which would be added the value of United Gas if distributed, making a total of $38.45. But such estimates are doubtless too high because United's dividend income is from high-grade U. S. utility holdings (with a future admixture of special investments) while a big proportion of EBS' estimated future income will be from the speculative Foreign Power stock. Hence it seems unlikely that EBS will sell on a similar yield basis as United. Nevertheless the parallel tax position of the two companies is of special interest at this time.

As we go to Press, there comes the announcement that the SEC has approved a reorganization plan for American & Foreign Power Co., Inc., which is intended to give public stockholders a better break. Hearings on the plan will begin December 19 in the U.S. District Court in Portland, Me.

What Prospects of New Currency Readjustments Abroad?

(*Continued from page* 177)

and armament, and (3) heavy public and private outlays. To keep inflation in check, Australia needs to expand her primary industries and to re-equip her secondary industries. Much depends upon her ability to cash for capital goods her sterling balances in London, now about five times as large as after the Second World War. Otherwise, she may need a dollar loan to purchase the necessary capital goods. There has been no serious pressure on the Australian pound from the balance of payments as yet.

To summarize, the pressure on individual European currencies does not stem from their being overvalued as in September 1949, but from the re-appearance of an import gap induced by internal inflation due largely to the rearmament burden. What happens to these currencies depends upon: (1) The measures which individual countries will take to hold this inflation in check. The prospects in this respect are none too encouraging. (2) The extent of American help.

As the individual currencies grow weaker, there is bound to be increased pressure on Washington to increase armament aid, either by supplying steel, metals, chemicals, etc., or by placing American armament orders. (3) Finally, European countries, pressed by politicians at home, are almost certain to urge a let-up, a staggering or rearmament over a longer period so as to mitigate its inflationary effect. That, however, is another story.

Upsurge in Business Machine Industry

(*Continued from page* 180)

operating methods pushed net income to $1.8 million from the previous year's $1.6 million or to $5.60 per share from $5.04. Since the company holds substantial order backlogs, both civilian and from the Government, it is expected that volume close to present levels may be maintained through the next fiscal year although profit margins are expected to narrow on higher corporate taxes and steeper raw material costs.

Underwood Corporation, by adding to new products in its standard office equipment line, pushed net earnings for the nine months ended September 30 to $3.4 million or $4.72 per share from $2 million or $2.75 per share in the similar 1950 period. An increasing volume of foreign business plus defense contracts already received, should maintain volume close to current levels during the year.

Among the more specialized companies is *National Cash Register,* largest manufacturer of cash registers, whose sales are basically determined by retail trade volumes. Domestic business is divided between original sales and replacement. Although no major growth is forecast for the company, a $5 million expansion program is underway and profit margins should be maintained through the current year despite higher costs. The company paid no excess profits tax in 1950 and thus is in a more favorable tax position than others in this group.

Sales in the nine months ended September 30 rose to $147.1 million from $118.5 million in the similar 1950 period. Net income climbed to $9.1 million or $4.64 per share from $7.6 million or $3.90 per share in the first nine months of last year. A 40 cent extra dividend has been declared. Because of heavy selling costs, expenses are less flexible and since repossessions vary inversely with business conditions, earnings for the company tend to fluctuate more widely than its sales and are more vulnerable to business conditions than for a majority of other business equipment manufacturers.

For Profit and Income

(*Continued from page* 189)

mon stocks down to much more attractive long-term buying levels than now obtain. Perhaps this is looking quite a distance ahead, both for higher bond prices and importantly lower stock prices. But conservative investors ought to try to look quite a distance ahead. It is as certain as death and taxes that the armament prop to the economy is not permanent.

General Motors

Selling at 50 at this writing, with the huge total of 87,588,190 common shares outstanding, General Motors has for many months been performing like a stable-income stock—like a Woolworth or General Foods, which it distinctly is not. It got no higher than 54¾ in 1950 on earnings of a record $9.38 a share and $6 in dividends; and has ranged merely between 54 and 46 so far in 1951 on estimated earnings of around $5 a share, or a little more, and a probable $4 in dividends. Investors have appraised the stock in a generally sensible way. They recognize 1950 earnings and dividends as abnormally good, refusing to get excited about them; and they have not been inclined to do much selling on the basis of lower 1951 earnings and dividends. The company has "all the money in the world" —more than $842 million in cash or equivalent as of last June 30. The management feels more of a responsibility to maintain the highest dividends reasonably possible, and to allow something for the depreciation of the dollar in doing so, than do most. Average future dividends probably will be substantially higher than in the past, and probably will be geared less closely to earnings fluctuations than they were in the past. This writer would guess a long-term average of $3 to $4; but what the minimum might be under poor auto demand is hard to say. There is a lot to be said for the company and the stock—but not for buying it at 50, which is only 4¾ points under its all-time high. Not mentioning the real depression periods, it sold as low as 34⅛ in 1950. Its average price of the last 5 years was 40¼; of the period since 1941, 34½.

Realistic Analysis of Tax Impacts on Third Quarter Earnings

(*Continued from page* 169)

pany is profiting from its capacity production and the fact that it has had no problem in connection with securing raw materials for its plants. This has permitted steady uninterrupted operations.

Earnings for the first nine months of the year amounted to $6.10 a share, compared with $5.07 in the same period of last year. On the basis of its earnings thus far, and in consideration of continued capacity operations, it is likely that fourth quarter earnings will be close to those of the third. This would bring total earnings for the year up to about $8.20 a share compared with $7.22 in 1950.

In common with the other large petroleum companies, *Standard Oil Company of California* was able to largely counteract the effect of higher taxes. Its third quarter report showed profits of $1.59 a share, a nominal drop from the $1.62 a share earned in the same period of 1950. For the first nine months, net income amounted to $4.55 a share against $3.73 in the same period last year. Holding up the rate of earnings were the peak level operations during the entire year thus far.

Taxes during the third quarter were only moderately above those of the same quarter last year, despite the increased tax rate and the larger operating profits. They amounted in the former period to $26.9 million against $24.1 million. For the full nine months, taxes were $74.3 million against $43.7 last year. Despite these higher tax payments, the company was able to show an appreciable gain in net income, as a large part of the additional operating profits arising from increased sales were exempt from taxes, due to the favorable depletion clause in tax regulations governing the oil industry. Earnings for the full year are estimated at about $6.10 a share against $5.26 last year.

Commercial Solvents

Earnings of *Commercial Solvents Corporation* were 51 cents a share in the third quarter, with taxes amounting to 31 cents a share. For the same period of 1950, earnings were 57 cents a share, with taxes at 44 cents a share. The drop in earnings was partly due to a decline in sales from $14.2 million in the second quarter to $12.7 million in the third. In this latter period, there accrued also increased expenses due to change-over of plants and preparations for further expansion in various chemical products.

The company states that provision for income taxes during the first and second quarter were based on the tax rates in effect during that period. This means apparently that provision has not yet been made for payment of the retroactive tax. This will probably come out of final quarter earnings.

Earnings for the nine months were $1.68 a share, compared with $1.07 a share in the same period of 1950. Based on returns thus far this year and assuming a charge-off during the fourth quarter for retroactive taxes, it seems probable that Commercial Solvents will earn in the neighborhood of 25 to 30 cents a share in that period, which would bring the full year's earnings to slightly below $2 a share compared with $1.96 in 1950.

Squeeze on Industry —If Labor Gets Seventh Round?

(*Continued from page* 171)

endangered, if a new inflation tide were to be released via another round of wage increases. Thus the challenge to labor to cooperate by making wage stabilization effective is crucial indeed. Labor has the opportunity to demonstrate that in a defense emergency it can put the nation's interests above immediate gains. For labor itself has much to lose from another round of inflation that will further lower the dollar's purchasing power.

Not only labor and the public at large, but Government itself has a tremendous stake in stabilization. Renewal of inflation will tend to increase the costs of rearmament, creating new and serious fiscal problems ever more difficult to solve, what with taxes close to the point of diminishing return.

Needless to say, the new round of wage demands will put our stabilization policies to a severe test. Coming in an election year and at a critical stage of the de-

fense program, it is bound to create a serious conflict and raises the question whether the Administration will be able and willing to hold the price line, whether labor will forego immediate gains for lasting stability, whether business is in for another squeeze, something that might prove politically tempting were it not for the Government's dependence on tax revenues from corporate sources. To take the "hard" course will require political courage and a desire by all concerned to cooperate even at the cost of some sacrifice.

The Steel Talks

Right now the big worry is steel. The steelworkers union cannot strike, legally, before January 1 and the hope is that difficulties can be avoided by a wage agreement that won't tear stabilization hopes apart. The odds, however, favor the union, with the possibility of another retreat on wage control. A "productivity formula" is likely to be added to the official wage rules, allowing increases on top of anything accruing under the previously adopted cost-of-living formula or the still earlier "catch-up" rule.

Steel workers used up their 10% catch-up allowance last year when they got a 16-cent raise. They still can have a raise of about 5 cents an hour under the Wage Board's 1951 cost-of-living formula but under the productivity plea, their demands go far beyond that. Whether they can sell them to their employers, without compensating price increases, is another matter and a dubious one. If price increases result, another wage-price spiral will almost certainly be touched off.

The Outlook for Corporate Profits

(*Continued from page* 166)

applies more specifically to the consumers' industries than those manufacturing capital goods.

In the consumers' goods industries, we have for months been witnessing considerable contraction owing to spending apathy by the public. This attitude may become even more apparent in the coming months due to the contraction in buying power caused by the increase in individual income taxes and the rise in excise taxes. The combined result of these increases is to shrink the size of whatever reserve buying power above daily needs is in the possession of the average worker and his family.

The situation in the capital goods industries is more favorable, of course, as the defense program is speeded up and reaches more impressive proportions, so that continued high sales may be looked for in this group of industries. However, the low rate of profit on Government business in addition to exceedingly high taxes will tend to restrict net income in this field.

If the conclusions expressed in this study seem somewhat on the less cheerful side, this is partly because comparisons are made with an unusually profitable period, one, in fact, which was abnormally good principally owing to the huge concentration of buying when the markets were not prepared. Much water has flown over the dam since then and a new set of conditions has emerged which are only now becoming more fully appreciated. Nevertheless, one should not exaggerate the possibilities for decline in net income. As long as the defense program is carried through with the likelihood of further increase, the business economy will be sustained and profits, while smaller, will still be substantial.

Dividend Outlook

In the meantime, industry has greatly improved its financial position in the past year or so, with working capital up about $3 billion in that period. This brings us finally to the question of dividends. With net income still running at about double the rate of dividend payments which will be about $9.5 billion for the full year 1951, it should be clear that the margin for regular dividends is ample and is likely to remain so. However, it must be considered that the downtrend of net profits may affect company policies with respect to the payment of extras in the coming year. In individual cases, even regular dividend rates may have to be pared.

The Air Conditioning Industry —Studies In Specialties, Part II

(*Continued from page* 185)

Even though scarcities of raw materials may retard expansion in previously untried lines, American Radiator management is hopeful of counteracting a downtrend in residential construction in 1952 by gaining a larger share of the original equipment going into new homes, including air conditioning units which are expected to increase the company's take from heating equipment.

Buffalo Forge manufactures among other items a variety of blowers and fans utilized as parts in heating, ventilating and air conditioning apparatus. In addition, the company designs and installs especially designed equipment for industrial air conditioning equipment. A high rate of activity in plant construction as well as armament orders account for the company's favorable showing in the fiscal year ending November 30. Sales and earnings this year are expected to compare closely with last year's volume of about $16.9 million and net profit of $5.48 a share. Dividends for the year promise to approximate 1951 distributions of $4 a share.

Carrier Corporation, one of the few companies concentrating primarily on equipment related to refrigeration, air conditioning and industrial heating, experienced a successful year in the twelve months ended October 31. Sales volume for the year just closed is estimated to have ran some 20 per cent ahead of the 1950 total of $62.4 million. Net profit may have ranged between $3.80 and $3.95 a share, after allowance for increased capitalization, against $3.65 a share for 1950. An additional 216,504 shares were offered to stockholders last June at $19.50 a share. Dividend distributions have been conservative and may amount to $1.25 a share for the year. At mid-year, backlog orders totalled some $90 million including $50 million defense business.

Fedders - Quigan Corporation has ventured into room conditioners in an important way in connection with its production of automotive radiators as well as various types of heating equipment. The company recently entered into an arrangement for manufacturing air conditioners to be marketed nationally by Radio Corporation of America and by Avco's Crosley division. Sales of the company have been expanding on armament projects. Net profit is expected to fall short somewhat of last year's $1.60 a share. Dividends are on a regular 25-cent quarterly basis. An extra of 10 cents a share was paid in July.

York Corporation

York Corporation is another company which has pioneered air conditioning for many years. The company designs, manufactures and installs all kinds of equipment, especially for industrial and commercial applications. Ice-making machines also are manufactured. Sales in the fiscal year ended September 30 are believed to have declined moderately from the $49.1 million of 1950, but earnings are indicated to have approximated $2.50 a share, compared with $1.91 a share last year. Confidence in future prospects was evidenced by management's recent increase in dividends to a 50-cent quarterly rate from 37½ cents. Management has denied reported negotiations looking toward absorption of this company by others in the electrical equipment industry.

Trane Company, one of the most successful of the air-conditioning concerns, is also engaged in the manufacture of heating and ventilating equipment. Plants are in the United States and Canada, and the company does extensive business in South America, Europe and the Antipodes.

Earnings since the war have been established on a high level, with defense business playing an increasing role in the past year. Demand is particularly strong for unit heaters which the company manufactures both for industrial use and a number of military installations. Other equipment, such as aircraft intercooler systems and heat exchangers, are also in record demand.

Consolidated net sales were $26.6 million in the first nine months of 1951, compared with $18.9 million for the same period last year. For the first nine months of 1951, net earnings per share were $5.15, but additional tax liabilities not yet accounted for would bring this figure down to $4.68 per share. Earnings for the

(*Please turn to page* 206)

ADJUST YOUR INVESTMENT PROGRAM

—to take advantage of new investment bargains

As you know, individual stocks do not reach their best buying prices all at once . . . that is why our specific recommendations WHEN TO BUY each issue -HOW LONG TO HOLD IT—and the price at which to TAKE PROFITS—*can be of the greatest dollar value to you.*

Every dollar of your invested capital will be affected by the inception of a new advancing market phase, featuring new leaders, special situations and hitherto neglected issues.

Growth companies strategically situated in both civilian and defense production, expanding output, increasing earnings to support rising dividends. Medium priced stocks where enhancement potentials have been made more dynamic by stock splits or recent solution of obstacles so that net income should rise even after higher taxes. Sound low priced shares of companies who are achieving new earning power and industrial status through aggressive and resourceful management for long term growth and fortune building.

This is a particularly strategic time to secure the advantages of our service, because we believe that the readjustment in value of "blue chips"—and the dynamic quality of emerging individual specialties—are creating opportunities for above average capital gains -looking to 1952.

THREE DIVERSIFIED PROGRAMS COMPLETE IN ONE SERVICE

—For Backlog Investments
—For Appreciation with Income
—Low Priced Shares for Large Pecentage Growth

The Investment and Business Forecast brings you three, prudently diversified programs to meet your every objective. All are provided under your single enrollment.

ADDED FEATURES INCLUDE . . .

Consultation by Wire and by Mail . . . *To keep your portfolio on a sound basis, you may consult us on 12 securities at a time . . . by wire and by mail.*

Business Service . . . *Weekly review and forecast of vital happenings as they govern the outlook for business and individual industries.*

Washington Letter . . . *"Ahead-of-the-news" weekly reports from our special correspondent on legislative and political developments weighing their effects on business and securities.*

Enroll now — to secure our special recommendations for BETTER-THAN-AVERAGE PROFITS, and continuing advice telling you *exactly when and what to buy so that you may derive the utmost gain and income.* AND, if you will send us full data on your present holdings and cash position you will receive our advice at once—WHAT TO SELL—WHAT TO HOLD.

You are invited to take advantage of our Special Enrollment Offer which provides FREE SERVICE to December 17th. *Mail the coupon below . . . today.*

Mail Coupon Today!

Special Offer

6 MONTHS' SERVICE **$60**

12 MONTHS' SERVICE **$100**

Complete service will start at once but date from December 17. Subscriptions to The Forecast are deductible for tax purposes.

FREE SERVICE TO DECEMBER 17

12/17

THE INVESTMENT AND BUSINESS FORECAST
of The Magazine of Wall Street, 90 Broad Street, New York 4, N. Y.

I enclose ☐ $60 for 6 months' subscription; ☐ $100 for a year's subscription.
(*Service to start at once but date from December 17, 1951*)

SPECIAL MAIL SERVICE ON BULLETINS

Air Mail: ☐ $1.00 six months; ☐ $2.00 one year in U. S. and Canada.
Special Delivery: ☐ $4.00 six months ☐ $8.00 one year.

☐ Telegraph me collect in anticipation of important market turning points...when to buy and when to sell...when to expand or contract my position.

Name..........

Address..........

City.......... State..........

Your subscription shall not be assigned at any time without your consent.

List up to 12 of your securities for our initial analytical and advisory report.

The Air Conditioning Industry —Studies in Specialties Part II

(*Continued from page* 204)

full year are estimated at about $5.76-$6 a share. This compares with a four-year average, 1947-1950, of $6.42 a share, on the 300,000 shares of capital stock, the sole capitalization.

Recently a 100% stock dividend was declared, which will bring the outstanding stock up to 600,000 shares on Dec. 30 when the dividend is payable. Cash dividends on the present stock are 62½ cents a share, affording a yield of slightly above 5% on the present price of 49.

United States Air Conditioning Corporation is among the smaller manufacturers of air-conditioning equipment and systems. Its record in recent years has not been impressive, with net income of about $100,000 for the fiscal year ended Oct. 31, 1950 and losses of $191,000 in 1949 and $93,000 in 1948. Sales this year have increased during the first nine months of the fiscal year from $2.8 million the year previous to $3.5 million so that 1951 results should show some improvement, although earnings were undoubtedly affected by a strike which took place several months ago.

Vigorous Industry Growth Assured

For the most part, companies participating in the air conditioning industry have their major manufacturing activities in other lines. Hence, from a stock market viewpoint, any especially promising growth outlook for air conditioning might be expected to have only an incidental influence on market behavior of such issues. In the cases of Carrier and York, however, popularity of air conditioning at times has contributed to investment demand. So long as strategic materials are available, these companies promise to fare well in sharing a growing market for cooling systems. Air conditioning, now growing up rapidly, eventually is bound to become one of our major industries. While defense requirements may temporarily interfere with further production progress, ultimate vigorous expansion of markets — particularly also in the field of room coolers—is a virtually certainty.

Answers to Inquiries

(*Continued from page* 198)

ary companies reported for the twelve months ended June 30, 1951 net sales of $67,197,542, an increase of 39% over sales of $48,310,704 in the similar period of 1950.

Net profit for the 1951 fiscal period was $2,827,433, equal to $2.49 per share on the common stock outstanding. This compares with $2,782,379, or $2.44 a share in 1950.

The above earnings reflect certain accounting changes in the valuation of inventories of two subsidiaries on a "LIFO" basis. These changes have the effect of reducing earnings for the fiscal year by about $1,600,000 before taxes and $825,000 after taxes.

Although the company paid no excess profit taxes, total taxes for the twelve months amounted to $4,488,805, an increase of 70% over the total taxes of $2,635,144 in 1950.

A new Reeves finishing plant, known as the Bishopville Finishing Company, is now under construction in Bishopville, South Carolina, and operations are expected to begin early in 1952. The new plant will be the third finishing plant owned and operated by Reeves Brothers Inc., and was especially designed to handle fabrics of synthetic yarns.

The company's continued activities in the fields of research and development, is part of a program being carried on with producers of synthetic yarns and staple fibre. It is also noted that the company's Osage Mill at Bessemer City, North Carolina is now producing grey goods woven of synthetic yarns. This mill was completely reconverted and re-equipped during the past year.

Current quarterly dividend is 30 cents per share.

The Trend of Events

(*Continued from page* 160)

foreign earnings during the year compared with less than $500 million in 1949. Apparently less money is plowed back into expansion abroad although the amount probably is sizeable.

Latin America shows up as the biggest source of receipts—40%

last year, mostly from direct investments. Canada was second with 20%, and a goodly slice of the balance came from the Middle East and other oil regions.

Foreign investments may at times present considerable specific hazards, depending on character and location, as developments in the Middle East, for instance, now tend to emphasize, but the record shows that they also can pay off handsomely. And direct investments abroad sometimes account for a significant slice of company earnings. Where this is the case, the improved 1950 return is of particular interest.

As I See It!

(*Continued from page* 161)

compromise, is finding none at all. Rather, the signs indicate that Russia may be using the diplomatic maneuvering for a grand showdown next year.

The cold war has reached the point where it will be a long time before the ice of distrust will break up. The Soviets have shown no serious intent of negotiating a settlement. The West has no other choice than to proceed with full scale rearmament in the hope that the Russians will not dare challenge it once it has attained full strength. The intervening period may be difficult but we must face up to it.

At all events, Korea remains the key. So long as there is no settlement there—and the truce talks are again deadlocked—there can be no serious attempt to settle East-West conflicts elsewhere in the world. Korea will remain a testing ground as Russia maneuvers for concessions to call off the war. The U. N. will be risking its own destruction if it drifts into appeasement in Paris.

Earnings Decline Not Fully Discounted

(*Continued from page* 163)

correction to-date, there exists no adequate basis for a significant renewal and extension of the major uptrend at this time. The real significance of the market break still has to show itself in further tests, perhaps within a period of weeks or several months. Recoveries so far have been in the nature of minor snap-back rallies which conceivably could extend to an intermediate recovery of somewhat greater scope unless impeded by fresh adverse news impacts. But that remains to be seen. So far the market itself has done little to point the way.

Trend Clarification May Take Time

Until there has been some measure of trend clarification, there is no point in jumping to conclusions. Rallies so far have lacked vigor and follow-through, indicative of existing uncertainty and the market's vulnerability, and the forthcoming news environment will be highly mixed and probably weighted on the negative side. Our advice remains the same: Maintain ample cash reserves to take advantage of future buying opportunities.

—Monday, November 12

BOOK REVIEW

THE SOCIAL RESPONSIBILITY OF MANAGEMENT

By STUART CHASE,
STANLEY H. RUTTENBERG,
EDWIN G. NOURSE,
WILLIAM B. GIVEN, JR.

Four distinguished leaders in their respective fields – a social engineer, a representative of labor, an economist, and a representative of management – contribute to this volume their points of view on the social obligations of management, one of the most important aspects of American life today.

The four lectures comprising this book were given in the Edward L. Bernays Foundation Lecture Series of 1950, presented in the spring of 1950 as the Anniversary Lecture Series commemorating the fiftieth anniversary of the School of Commerce, Accounts, and Finance of New York University.

Ideas about the social responsibility of management have undergone a vast change since the days when most businessmen believed that the workers owed them homage. The factory is no longer isolated; it is an integral part of the life of the local community. The employees can no longer be considered as machines to be replaced when worn out; they are people with pride, with personalities, with problems. Unions can no longer be ignored and broken; collective bargaining is a permanent part of our economy. Management cannot shirk its duty; it owes a debt which must be recognized—to consumers, to stockholders, to employees, and to society in general.

N. Y. U. $2.00

NEXT BUYING ZONE . . .

. . . *now in the making*

SUCCESSFUL investment in the months ahead and throughout the important presidential election year of 1952, demands that you keep abreast of changing forces affecting your holdings—and have the courage to reduce your position in fully priced shares to be ready with buying power to secure real investment values at opportune levels.

Every company whose shares you own will have its net income and normal dividend paying ability changed by the upward revision in corporate tax and surtaxes. Some stocks have scored outstanding gains and are now approaching profit taking levels. On the other hand a number of sound listed issues, because they are still undervalued or have only recently solved restricting problems—will represent excellent opportunities for income and growth in the next buying zone which is now in the making.

STRATEGIC AND IMPORTANT POINT TO REVISE YOUR INVESTMENT HOLDINGS

The present—NOW—represents a particularly strategic time to recheck every individual security you own, as well as the investment policy YOU are following, in relation to cash reserves, income productivity, inflationary versus deflationary factors and other influential forces.

Such reappraisal must be searching and factual, and must avoid personal emotions and subjective considerations.

It is a difficult task for any individual investor. Rather it is a job for an organization of well trained, seasoned experts in the various phases of investment analysis.

MANAGING YOUR SECURITIES

Just as any business venture rises or falls by reason of management—so the healthy expansion—or the shrinkage—in your capital and income are governed by the competence and nature of the management of your investment account.

Capable management must construct a balanced portfolio, soundly diversified as to type of security, nature of business, geographical location and political influences.

It must plan to produce an income return to meet your individual needs and to provide a degree of safety to fit your personal circumstances.

Proper supervision of securities should anticipate dangers ahead and take steps to protect principal against loss. It should see new opportunities developing and set up a program to participate fully in income and profit benefits to be derived.

CONTINUOUS PERSONAL MANAGEMENT

Investment Management Service takes the initiative in advising you when any change should be made in your personal investment holdings You would be relieved of worry, effort and research and would never be left in doubt as to your market position. It is this alert, unbiased counsel which clients have renewed year in and year out.

NOW, with the market in a difficult phase, you should investigate this Service, by taking advantage of the special invitation below.

An Analysis Of Your Investment Portfolio

SPECIAL INVITATION

—without obligation, we offer to send you a confidential, preliminary review of your portfolio if it exceeds $20,000 in value—commenting frankly on its possibilities for capital growth, its income factor and its diversification. Your least favorable issues will be specified, with reasons for selling. Merely send us your list of holdings and objectives in as complete detail as you care to give. All information will be held strictly confidential.

INVESTMENT MANAGEMENT SERVICE

A Division of The Magazine of Wall Street
A background of forty-four years of service

90 Broad Street New York 4, N. Y.

AMERICAN - Standard

AMERICAN RADIATOR & STANDARD SANITARY CORPORATION

BOX 1226 PITTSBURGH 30, PA

AMERICAN - Standard

AMERICAN RADIATOR & STANDARD SANITARY CORPORATION

BESSEMER BUILDING
PITTSBURGH 22, PA

THEODORE E MUELLER
PRESIDENT

SUBJECT: NEW FACILITIES FOR MANUFACTURING KITCHEN CABINETS

Effective August 23, 1951, Acme Metal Products Corporation became a subsidiary of American Radiator & Standard Sanitary Corporation.

The acquisition of the Acme plants in Blue Island, Illinois, and Dover, New Jersey, will enable American-Standard to broaden its line of home equipment by adding facilities for the production of kitchen cabinets.

This move, plus the wide American-Standard facilities for manufacture of kitchen sinks, will make possible a deeper penetration of the ever-growing kitchen market. Both new construction and home modernization offer outstanding sales opportunities for American-Standard kitchen products.

The purchase of Acme Metal Products Corporation brings the total of American-Standard subsidiaries to six; the number of factories in the American-Standard family to 46; and marks another important addition to our capacity for serving home and industry throughout the world.

E

Y.

TREET